THIRD AVENUE VALUE FUND

Portfolio Manager Commentary

INSTITUTIONAL: TAVFX | INVESTOR: TVFVX | Z: TAVZX

March 31, 2018

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Dear Fellow Shareholders:

IN MEMORIAM

On April 16th, Martin J. Whitman, our firm's founder and philosophical true north, passed away. Marty lived an extraordinary life both personally and professionally. We take this moment to express our sincerest gratitude that we were among the many he mentored, providing us the opportunity to stand on the shoulders of a giant. He was a maverick and offered the investment community truly independent and unconventional thought. Those of us who spent time in his presence could not help but be impacted by his incredibly keen mind and brutal honesty, which caused our standards of excellence to be recalibrated. We will forever be better for having had the privilege. Thank you Marty.

STRATEGY UPDATE

For the three months ended March 31st 2018, the Third Avenue Value Fund (the "Fund") returned -0.23% as compared to the MSCI World Index, which returned -1.21%[1]. It was a tale of two quarters in which global equity markets began the quarter elevating throughout much of January while the remainder of the quarter saw gains turn into losses as trade and tariff policies stoked fears of trade wars and a variety of geopolitical conflicts also contributed to the effort of reducing global equity prices. The Fund operates in an inherently uncertain world.

We were generally pleased with that pattern of results, as Fund performance lagged that of the MSCI World Index in the earlier portion of the quarter but performed materially better in the latter as market performance deteriorated. The combination of the two periods netted a result of relative outperformance for the Fund. We have conveyed to a number of shareholders that over the long-term we would generally expect the Fund to perform relatively better than most in difficult periods as a typical feature of the Fund's deep-value approach and the reduced correlation of Fund performance to that of indices, which derives from the Fund's highly distinctive portfolio composition. This past quarter produced one data point in support of that expectation. Embedded in our approach to risk management is preparation for a wide range of economic and political scenarios by: I) focusing our efforts and capital on investment opportunities in businesses which are well-capitalized so that their business plans are not governed by the prevailing generosity of capital markets, II) striving for the avoidance of potentially catastrophic risks, such as obsolescence risk and, possibly most importantly, III) employing stringent price-consciousness with the philosophy that prospects for investment gains and losses are often governed more so by the price one pays for a security than the outlook for the business.

On March 16th 2018, the process of merging the Third Avenue International Value Fund into the Fund was completed. Further, following the portfolio manager changes we announced in September, a relatively rapid transformation of the Fund's holdings has taken place. Our team has, to date, been rather successful in our effort to identify attractive opportunities in a financial market environment that is, in general, not accommodative for price-conscious value investors. During the quarter we continued that process by purchasing three new positions. Each is discussed below. Additionally, we added to ten existing positions including Tidewater, Interfor Corp, Lundin Mining, Forest City Realty Trust and CK Hutchison Holdings, among others. As a result of the merger, the number of Fund holdings, currently at 40, is above what we consider to be a typical level of between 25 and 35. We expect the number of Fund holdings to be back in a more typical range in the coming months. Along those lines, the Fund exited a total of eleven positions during the quarter. A summary statistical table evidences a stark distinction between what has been purchased since Mike and Matt assumed portfolio management responsibilities, as compared to what has been sold, and should offer some clues as to how the Fund will continue to evolve. We believe that shifting capital into businesses with valuable tangible assets, and doing so at very modest prices, serves to put the Fund increasingly into the "coiled spring" position, which simultaneously improves the likelihood of investment gains and reduces the likelihood of permanent loss.

New Purchases	Eliminated Positions
Average Price to Tangible Book Value	Average Price to Tangible Book Value
1.37x	6.06x
Average Market Capitalization	Average Market Capitalization
$12,531 million	$27,005 million

Source: Capital IQ based on 3/31/18 prices and most recently reported financial information
*Calculation does not include six eliminated positions, which have negative tangible book value.

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**

OFFSHORE OIL SERVICES

An important portion of the Fund's recent activity has been focused on companies that provide services to offshore oil and gas projects. We have, in previous letters, discussed the severity of the recession that has been taking place in the offshore oil services industry. It is one of very few industries globally that is currently undergoing a recession, let alone one of historic severity. Fewer still are industries for which there is an extremely high probability that the current recession is cyclical rather than secular.

In summary form, in 2014, O.P.E.C. abandoned production quota levels under which it had been operating in recent years in order to deliberately oversupply the global crude oil market. The price of crude reacted in a manner which reflected the fundamental oversupply as well as general pessimism related to a very uncertain future with regard to the balance of supply and demand. We would argue that sentiment may have been the more influential factor as the price of a barrel of oil bottomed in early 2016 at levels that would render most of the world's oil production uneconomic. Sentiment was also impacted by the fact that oil's price decline happened to coincide with that of a number of industrial commodities, which caused many to speculate that oil *demand* may be part of the problem, not just supply. That concern faded quickly as global oil demand has continued to rise consistently and strongly. Yet fears of excess supply have lingered for years now, notwithstanding a fairly rapid decline in global crude inventories, which suggests the opposite. Naturally, given the low oil price environment, spending enormous amounts of money to find new resources or develop existing resources has not been high on the list of priorities for oil and gas producers. As is to be expected, 2015 through 2016 were years in which oil and gas producers focused singularly on bringing down costs of producing assets and eliminating from their budgets anything resembling discretionary spending. The impact on companies which provide services to those companies, whether onshore or offshore, was historic. The service providers are the tip of the whip, so to speak, where the amplitude of the business cycle is most magnified.

However, as compared to most onshore oil and gas projects, offshore projects tend to require extremely large and sophisticated pieces of equipment, such as drilling rigs, and yet more equipment, such as OSVs (offshore service vessels) to service those drilling rigs. In short, the offshore oil and gas industry is incredibly capital-intensive. The service providers who own and operate the required equipment, sometimes spending as much as $700 million to build a single drillship, often require the use of large amounts of debt to fund that capital expenditure. By combining cyclicality and debt-funded capital intensity, the offshore services industry is a recipe for occasional financial distress. However, the corollary is that it is also a recipe for creating unusually attractive special-situation investments at distressed prices. We are convinced that the world absolutely needs the 25 percent of global oil supply that is currently produced offshore and if spending on offshore projects doesn't increase in the relatively near future, the world will cease to enjoy that supply. In reality, there are growing signs that the recovery in spending has already begun in earnest.

We are also convinced that the securities prices of some offshore oil service companies reflect enormous discounts to the replacement value of the assets. However, the real trick is to undertake this activity in a manner that does not subject us to the financial leverage normally associated with these companies. This is where the special-situation aspect becomes critical. We identified the opportunity to purchase two companies in the offshore oil service industry which recently emerged from bankruptcy sporting net cash balance sheets and a third in a newly formed company which has been entirely funded with equity for the sole purpose of purchasing a specific class of drilling rigs from distressed sellers at large discounts to replacement value. At quarter end the Fund held investments in four offshore oil services companies – Tidewater, Borr Drilling, Ocean Rig and Petroleum Geo-Services, in order of size – representing a total weight of 8.5% of Fund capital. A discussion of Borr Drilling and Ocean Rig, which were purchased during the quarter, follows below.

NEW POSITIONS

Borr Drilling Limited ("Borr") – Borr Drilling Limited, founded in late 2016, was brought to life by its Chairman, Tor Olav Troim, who is among the world's most experienced investors in this type of asset. The initial purpose of the company was to purchase two modern jack-up rigs from bankrupt Hercules Offshore at a huge discount to the replacement value of those assets, paying roughly $65 million per rig for assets which would likely cost as much at $220 million each to build. Shortly thereafter it became clear that Borr had an opportunity to consolidate a significant portion of the modern jack-up industry through purchases of assets from distressed owners. Borr has more recently acquired a number of not yet completed drilling rigs by renegotiating existing rig building contracts with shipping yards who were eager to negotiate favorable terms with a new counterparty who represented far less financial risk and actually wanted to take delivery of the rig. One and a half years later, Borr is now owner of the world's largest fleet of modern jack-up rigs as well as an operating team and platform it acquired in its most recent acquisition. This latest enhancement of operating capability will further Borr's ability to provide service to various producers.

Further, with regard to the jack-up rig industry, there are a few key points to understand. Firstly, jack-up rigs, as compared to floating rigs, tend to operate in shallower water where projects tend to be less complicated, less expensive to develop, and often have lower operating costs. Therefore it is reasonable to expect this segment of the drilling industry to begin to benefit from a recovery relatively sooner than other segments. Second, there are way too many jack-up rigs in existence today and a great many are sitting idle with owners eager to put them back to work. However, a very large and growing portion of those rigs are extremely old and operationally obsolete. Scrapping of such rigs has accelerated and will almost certainly continue absent a violent recovery of demand in the near future. Further, it is very expensive to bring rigs that have been stored back into service, particularly those which are old. Day rates (prices paid to owners for use of the rigs) today do not come close to covering those reactivation expenses nor the safety and maintenance surveys periodically required. For example, in its most recent transaction, Borr essentially purchased two jack-ups and one floater for a discount to replacement cost and were also handed 29 older jack-ups for no additional cost. Borr intends to scrap the vast majority of them in order to further consolidate and rationalize the industry. In short, if measured by feasible portion of the global jack-up fleet, the world is not nearly so oversupplied, which is why we have already begun to see an increase in day rates result from a fairly small increase in activity. We expect to see much higher day rates over the next few years.

Lastly, we mentioned the importance of the lack of financial leverage resulting from the special-situation nature of the company. Borr, as a newly-formed company, does not have the legacy liabilities of many peers and it paid far less for its asset base requiring less capital in aggregate. Furthermore, Troim's reputation enabled Borr to complete several equity capital raises and the company today remains entirely equity funded after more than USD 3 billion of acquisitions. Schlumberger has signed partnership agreements with Borr and is one of Borr's largest shareholders having invested in a capital raise. With a net cash position, Borr is in excellent position to ride out the duration of the downturn and is likely to be among the drilling industry's first beneficiaries of a recovery. Given solid oil demand, rapidly depleting offshore oil and gas reserve bases, shrinking global oil inventories, and nascent signs of offshore drilling recovery, we don't expect that a genuine recovery is all that far off.

Ocean Rig UDW, Inc. ("Ocean Rig") – Similar to Borr Drilling, Ocean Rig is an offshore oil and gas drilling company and a special-situation investment for the Fund. Unlike Borr, Ocean rig is not a new company and it owns and operates floating rigs rather than jack-ups. Ocean Rig was one of the many companies that succumbed to the financial distress brought on by the acute offshore oil services recession. The company was financially restructured in a bankruptcy process which concluded in 2017. Ocean Rig emerged from bankruptcy with virtually all of its debt having been converted into equity, which is why it is today a net cash company. Ocean Rig is an owner of modern semi-submersibles and drillships, the type of assets used in deep-water drilling. These rigs are among the most costly to build. We are confident that the price we have paid for shares of Ocean Rig represents a small fraction of the replacement cost of these assets. It is true that deep-water assets, like semi-submersibles and drillships, may benefit from a recovery at a somewhat later stage than jack-ups, but we believe that eventually dayrates for each type of asset must return to levels that provide a respectable return on the hundreds of millions of dollars it costs to build them. Absent that age-old economic law returning to the drilling industry, the industry will not build new rigs, as has been the case for the past four years, and the industry will continue shrinking as assets are retired and scrapped. That process would lead to a smaller supply of rigs, a better supply and demand balance and a likely return to dayrates that provide a respectable return on investment. Our math suggests that at dayrates anywhere close to normal, Ocean Rig's operating performance would justify a share price significantly above today's price, possibly multiples of the current price.

Bayerische Motoren Werke AG ("BMW") – As readers are no doubt aware, BMW is a global manufacturer of passenger vehicles and, to a much lesser extent, motorcycles. Forces of change impacting the automotive industry have been headline news for several years. There is the electrification revolution, autonomous driving, ride-sharing, diesel emissions cheating scandals, tightening and then easing of EPA regulations, concerns about the sustainability of Chinese economic growth, slowing U.S. passenger vehicle volume sales and deteriorating sub-prime auto loan credit statistics in the United States, to name a few. A fulsome discussion of each of these developments is beyond the scope of our letter and several developments require the ability to forecast an inherently uncertain future. However, we do believe that there are few, if any, automotive manufacturing businesses better positioned to profitably meet and adapt to an uncertain future than BMW. More broadly speaking, these shifting industry dynamics have resulted in a number of exceptionally high quality companies in the automotive industry being valued at levels reflecting an enormous amount of pessimism.

As a starting point, we are far more attracted to the luxury automotive space than the mass-market. Luxury auto manufacturers operate in a global oligopoly dominated by Daimler (via Mercedes-Benz), Volkswagen (via Audi) and BMW. The industry is generally less competitive than mass-market, tends to produce higher operating profit margins and is historically less cyclical than mass market, a trait that is counter-intuitive to many people but real nonetheless. These characteristics have enabled some of the automotive industry's best returns on capital, which, in turn, leads to several of the industry's best balance sheets. Constant funding of research and development in furthering engine technology, materials technology, efficient manufacturing and now electrification is extremely expensive. To the extent that an auto manufacturing business is only modestly profitable and/or must use resources to service debt, it is an incredible challenge to spend sufficiently to keep pace with leading engineering. Further, strength of credit rating is a competitive advantage to the many auto manufacturers with captive finance units. BMW today has among the industry's highest profit margins and is arguably the industry's most robustly capitalized with approximately EUR 20 billion of net cash (excluding its financial services business). BMW also happens to already be among the world's leading producers of electric vehicles.

In summary, we expect that BMW will likely continue to enjoy a favored position as the world of auto manufacturing evolves. Its engineering prowess is underpinned by an industry best balance sheet and high profitability, both of which may be used to fund investments in technologies for the future. Equally important, however, is that due to overriding industry concerns, BMW is trading at perplexingly low multiples. The Fund's cost of BMW shares amounts to roughly 7 times earnings, approximately 1 times tangible book value and a nearly 10% free cash flow yield.

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, CFA
Portfolio Manager

Michael Fineman, CFA, CFP®
Portfolio Manager

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.

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Date of first use of portfolio manager commentary: April 23, 2018

FUND PERFORMANCE

as 3/31/18	1 yr	3 yr	5 yr	10 yr	Since Inception	Inception Date
TAVFX (Institutional)	8.31%	5.62%	6.89%	4.26%	10.97%	11/1/1990
TVFVX (Investor)	8.03%	5.35%	6.62%	(n/a)	6.39%	12/31/2009

TOP TEN HOLDINGS

	% of Portfolio
CK Hutchison Holdings, Ltd.	4.9%
Weyerhaeuser Co.	4.6%
Total S.A.	4.0%
Bank of New York Mellon Corp.	3.8%
Brookfield Asset Management, Inc.	3.8%
Cavco Industries, Inc.	3.7%
Tidewater, Inc.	3.6%
Comerica, Inc.	3.5%
Lennar Corp.	3.5%
Alleghany Corp.	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, investor and z share classes is 1.13%, 1.38% and 1.03% respectively, as of March 1, 2018. 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.

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