Dear Fellow Shareholders,

We are pleased to provide you with the Third Avenue International Value Fund's (the "Fund") report for the quarter ended January 31, 2016.

Reflections on Third Avenue International Value Fund Performance

Managing the Third Avenue International Value Fund is not a casual pursuit for me. The search for deeply mispriced long-term investment opportunities, on a global basis, in a way that protects our capital invested from permanent impairment (though not necessarily from price volatility) is more of a consuming characteristic of my personality than it is my vocation. As a point of fact, I have the vast majority of my net worth invested in the Third Avenue International Value Fund. With this much invested in the effort, professionally, personally and financially, I am very disappointed with the Fund's poor performance. I took over management of the Fund in mid-2014 and have worked extremely hard to reinvigorate the Fund. While the effort has obviously not born results to date, I continue to believe deeply in our approach and have confidence that what we are doing to grow the value of the Fund will be successful over time.

As of the end of January 2016, the Fund holds 32 securities of companies that share a number of features. Namely, deeply discounted valuations, sound financial positions and the resources with which to produce considerable future returns to shareholders. Another commonality is that, while a number of the underlying businesses may be out of favor today, I believe there is virtually no risk of long-term obsolescence, certainly not within our investment horizon. Timber portfolios, container terminals, McDonald's in Latin America, oil service providers, copper mines and industrial properties -unpopular as they may be today, these businesses have been critical to the global economy for many decades (centuries in some cases) and are extremely likely to remain so. On occasion, such as now, the prices of these types of assets reach levels bordering on the ridiculous. Historically, it has been extremely profitable to buy at those times even though the future is inherently uncertain. We purchased a number of these businesses four or five years into cyclical downturns without a guarantee that we were at a cyclical bottom and knowing from experience that market sentiment, which is unpredictable and often divorced from valuation considerations, rules the day in the short-term.

Portfolio holdings are subject to change without notice. The following is a list of Third Avenue International Value Fund's 10 largest issuers, and the percentage of the total net assets each represented, as of January 31, 2016: Petroleum Geo-Services ASA, 6.89%; Tenon, Ltd., 6.52%; Rubicon, Ltd., 5.92%; Vivendi SA, 4.01%; Antofagasta PLC, 3.77%; Arcos Dorados Holdings, Inc.,3.67%; CK Hutchison Holdings, Ltd., 3.35%; Atrium European Real Estate, Ltd., 3.27%; White Mountains Insurance Group Ltd., 3.26%; Santos Brasil Participacoes S.A., 3.25%

Sometimes cheap stocks get a lot cheaper. In his famous book *Against the Gods—The Remarkable Story of Risk*, Peter Bernstein describes the findings of many economists who have analyzed whether financial market actors can be counted upon to behave rationally (spoiler—they absolutely cannot!). Below is one excerpt:

> *"Thaler and Debondt demonstrated that, when new information arrives, investors revise their beliefs, not according to the objective methods set forth by Bayes, but by over-weighting the new information and underweighting prior and longer-term information. That is, they weight the probabilities of outcomes on the "distribution of impressions" rather than on an objective calculation based on historical probability distributions. As a consequence, stock prices systematically overshoot so far in either direction that their reversal is predictable regardless of what happens to earnings or dividends or any other objective factor."*

I am of the belief, and evidence would suggest, that prices of many of our securities have grossly overshot (are well below) rational prices. Whether through Bernstein's conclusions or our fundamental analysis, I am very confident in our chances for excellent future returns.

The Nature of Long-term Value Investing

Thaler and Debondt's "overshooting" of prices is specifically what enables long-term value investing, which has been responsible for many of the world's great investing track records. In spite of that, value investors remain decidedly in the minority. This is true for a number of reasons. Firstly, while a long-term investment horizon, attention to fundamental considerations, thorough analysis and price consciousness provide powerful tools with which the value investor can raise the odds of long-term success, these tools provide virtually no information about the probabilities of near-term outcomes. Even more so, value investing is defined by the determination to buy something for well less than it is worth in the long-term, which often compels a value investor to knowingly pursue opportunities where the near-term outlook is quite poor. This describes a number of the businesses I mentioned above—hence the discounted pricing. For many fund managers, this complicates life with clients and fund management company executives and is therefore simply a bridge too far.

Secondly, building a concentrated portfolio of underpriced investments with attractive long-term prospects will, in our view, lead to a high probability of attractive long-term returns. However, probabilistically speaking, it will also make virtually certain that the Fund will endure periods of underperformance - at times materially so. To be sure, it would be an easier route and pose less risk to me personally from a career perspective to reduce "tracking error" and never have to answer to significant underperformance. It would however also reduce the long-term opportunity for material outperformance. This is the crux of a somewhat severe agency problem (or conflict of interest) that exists within the fund management industry. A great many managers are unwilling to take the career risk associated with constructing a portfolio composed with a high degree of distinction from the broad market, even when they believe it to be the prudent approach as an investor.

Some of the best firms consciously create an investment culture designed to emphasize long-term success and minimize this agency problem, yet most are more fixated on the risk to their own management fee streams that might result from underperformance. In an investment letter titled "Dare to Be Great" (and subsequently revisited in "Dare to Be Great II"), Howard Marks, Founder and Chairman of Oaktree Capital Management, has addressed this topic as well as anyone I have read. I would recommend the letter to anyone involved in any facet of money management.

All of the above notwithstanding, even with confidence in our value investing approach and the Fund's long-term prospects, self-doubt and self-reflection are a constant part of the process (especially in periods of underperformance). Lately, meaning over the last couple of years, these moments of self-reflection have often brought me back to the late 1990s and early 2000s. I joined Third Avenue Management at the turn of that decade. Our venerable flagship fund, the Third Avenue Value Fund, run by Marty Whitman, our founder and one of the legends of value investing, had underperformed relevant indices by a roughly 1000bps per year over a five year stretch during the tech bubble (1995 – 1999). Some unflattering things were said about our firm and our investment approach during that period. The fund saw material outflows. This period was immediately followed by a long stretch of sterling outperformance and extraordinarily flattering commentary about Marty, our firm and the investment approach. In a recent book by William Green titled *The Great Minds of Investing*, Jean-Marie Eveillard, another dean of value investing, shares his reflections on a long stretch of underperformance that resulted in the loss of the majority of his assets under management to redemptions and members of his board questioning his mental capacity. Like Marty, Eveillard maintained his conviction and went on to produce an outstanding long-term track record and a trophy case full of industry accolades. The book is a beautiful publication and a fascinating read for all interested. I would also refer readers to an admirable and very unusual paragraph contained in the highly-respected FPA Crescent Fund's investment policy statement. The paragraph chronicles a historical five year period of acute underperformance, causing that fund to lose 90% of its assets to redemptions, followed by a long period of tremendous performance. The point of these examples is not to illustrate that investing legends also "screw up" and that, by extension, I ought to be forgiven for poor performance. I am extremely disappointed by the Fund's performance and lie awake at night revisiting countless past decisions, analyzing how better decisions might have been made with the information available at that time (meaning without the clarity of hindsight). The relevant point is that all value investors, particularly those who manage concentrated idiosyncratic portfolios based on independently formed views, will endure periods of poor performance as an inseparable by-product of the investment approach.

At the inception of a cheap out of favor investment, estimating its long-term value can be done with far more reliability than estimating the timing of a convergence of its price to its long-term value. The former activity requires fundamental analysis, knowledge of corporate finance and some good judgement while the latter is more reliant on game theory – predicting the collective impact of future actions of rational and irrational market participants who will be subjected to unknowable future stimuli. As Marty would say, in the short run it's just a random walk. Some investments will rise sooner than expected, some will take time for value to come to light and still others will become even more out of favor (sometimes shockingly so) before appreciating. For all of its attributes, value investing is therefore very limited in its ability to produce *consistent* returns.

To be less theoretical, we might revisit the case of Brazilian financial markets, which are now in their sixth consecutive year of downturn. *Ex ante*, a value investor has little information as to when sentiment surrounding bargain securities might change (and I assure you that over shorter periods of time, sentiment and prices do not move in sync with fundamental developments). The conclusion that a great bargain is at hand not only derives from analysis of the value of the business - a range for which might be estimated through a triangulation process using methods like replacement cost, liquidation value, value to an acquirer, the value it might generate through other resource conversion activities and of course its ability to generate income from operations - but also is derived from a sense of the environment in which he is conducting this analysis. For example, is the environment characterized by low interest rates and easy money which flatter takeover valuations? Does existing government largess influence the earnings we contemplate? Is recent income from operations boom-time income or is it depressed? And what might liquidation values look like were the industry to come under stress? This type of analysis informed us that a number of very exciting businesses are available well below reasonable estimates of long-term value after five years of a significant Brazilian macroeconomic and stock market downturn. However, this same approach is patently useless in any attempt to reliably predict when a change in perception might take hold, i.e., a timeline as to when these valuations might be realized. In rare cases, such as our New Zealand special situations investments, we actually do have a decent indication as to when the performance is likely to arrive but that level of event-driven clarity is not the norm. Indeed, in the case of Brazil, a sixth year of downturn followed the fifth year and sentiment deteriorated further post our purchase of two Brazilian equities roughly a year and a half ago. We added a third more recently.

Another timely parallel would be to that of the price of oil. Oil at $30 per barrel (or nearly $4 below that at the time of this writing) creates a fascinating dichotomy. On one hand, it is virtually certain that in the long-term, oil will sell for materially higher prices. We can look at the industry fundamentals from 20 different angles and arrive at the same conclusion. Cash flow breakeven points for many of the world's lowest cost international oil companies, current supply cost curve, the price of oil required to make the economics of the average greenfield project work, and the global depletion rates of the oil industry all suggest very strongly that prices have to move far higher to enable the production of anywhere close to the amount of oil currently consumed. I don't encounter much discourse calling into question these inevitabilities. Of course, we live in an uncertain world and much higher prices may not eventuate, but probabilistically speaking it appears to be an excellent long-term bet. However, simultaneously, very few people if any (myself included) can make reliable predictions regarding the price of oil for the next 6 to 12 months, because it is an exercise in game theory or mass psychology, predicated upon imponderables rather than fundamental analysis. This near-term uncertainty combined with Wall Street's self-imposed obligation to make predictions compels analysts to make hyperbolic sounding statements about how low the price of oil *can* go. In a recent note Goldman Sachs concluded that oil *could* drop below $20 per barrel, given its current state of oversupply. This scary sounding alarm bell, which garnered considerable publicity, is nothing more than a simple and uncontroversial statement of fact. Oil is in a state of oversupply by virtually any measure and therefore *may* trade below $20 per barrel. What are the probabilities of this happening? And for how long will it stay below $20? These are imponderables and without the answers such conjecture is not particularly useful.

I suppose if you are a fund manager charged with managing daily or monthly volatility you might be encouraged to take some action but if you are a profit maximizing long-term investor, this type of noisy observation has virtually no utility whatsoever. However, these types of headlines impact Bernstein's "distribution of impressions" (i.e., they scare people who don't do fundamental analysis), fostering hysteria and "overshooting" of rational pricing. In a sense, this is a long-winded confession that we have no advantage whatsoever in predicting short-term price fluctuations of oil, stocks or what-have-you but, fortunately for us, that enterprise has little or nothing to do with estimating long-term outcomes.

The State of Value Investing

These last few years have been a brutalizing period for an unusually large number of value investors, which is another feature of recent years that bears strong resemblance to the late 1990s. A number of the world's great value investing track records were dented in 2015. As in the Nifty Fifty era and the late 1990s, growth investing paid handsomely while price consciousness was a costly character flaw. "Value with a quality bias", which is conceptually similar to G.A.R.P. ("Growth At a Reasonable Price"), became popular parlance in 2015. Both are pretexts for relaxing pricing disciplines in order to allow the purchase of businesses that are perceived to have better growth prospects. Stretches of poor performance from a number of deep-value investors has only bolstered the case for those strategies. One product of my self-reflection has been the discovery of reams of statistical information documenting the virtually uninterrupted underperformance of value strategies, as compared to growth, since 2007. Many have empirically concluded that this stretch has produced the widest gap of growth outperformance since the tech bubble of the late 1990s. As a reminder, the aftermath of that period gave rise to a protracted period of exceptional performance from Third Avenue Management.

Over the last eight years, whether in large-cap or small-cap, U.S. stocks or global, growth subsets of equity indices have trounced the value subsets of those indices. In a recent strategy piece investment bank Nomura went so far as to conclude that the period since 2007 has been the most severe period of value underperformance in 90 years. One aspect of computing track records that may not be intuitive to many is that when a fund endures a multi-year period of significant underperformance it is often sufficiently impactful to diminish the appearance of the longer-term record. This phenomenon is what gives pundits ammunition to question the wherewithal of greats like Marty and Jean-Marie in those periods, without the pundits necessarily recognizing that they are analyzing the record at a very specific point in time. In a recent CFA Institute article titled *O Value, Where Art Thou?,* Dougal Williams offered the following statistical insight related to the enormous but inconsistent long-term outperformance of value as a strategy:

> *"A 'disappearing' value premium, even over a 10-year stretch, is nothing new. In fact, since the late 1970s, 27% of all rolling 10-year periods have seen a negative value premium. Actually, if at any point in the past 35 years you evaluated the performance of equities over the previous decade, nearly 30% of the time you would have found that growth stocks outpaced value stocks."*

In another parallel to the late 1990s, it was in an environment similar to this in which Julian Robertson became so frustrated with the state of equity markets that he shuttered his famed Tiger Management in March 2000.

I keep a copy of his retirement letter in my files and recently revisited it noting his use of the phrase "the demise of value investing" and an admission of his own inability to determine when that confounding dynamic might change. Robertson wrote,

> *"'Avoid the Old Economy and invest in the New and forget about price,' proclaim the pundits. And in truth, that has been the way to invest over the last eighteen months……The tragedy is, however, that the only way to generate short-term performance in the current environment is to buy these stocks. That makes the process self-perpetuating until the pyramid eventually collapses under its own excesses."*

Like Robertson then, I would have looked a lot smarter had we owned a bunch F.A.N.G. stocks (Facebook (FB.O), Amazon (AMZN.O), Netflix (NFLX.O), and Alphabet Inc (GOOGL.O)) during the last eighteen months.

The Payoff

So now to the million dollar question - Third Avenue International Value Fund has underperformed and is likely to do far better in the future but how much longer will we have to wait for that future? I will answer here as candidly as I have each time a client has posed this question – the answer is, I don't know. Any other answer would be insincere and intellectually dishonest. Just as Marty and Julian Robertson have known for decades, the short-term is profoundly unpredictable. It is easy in this environment to find answers like that offered by CLSA economist Eric Fishwick:

> *"World trade is weak because commodity prices are falling….Collapsing commodity prices are the markets' way of correcting oversupply. The process is not yet complete. However, by mid-2016, at USD 35/bbl, we expect the oil price to have bottomed. This is a necessary condition for EM economies to start to stabilize. As they do so world trade growth will normalize supporting an improved growth environment for manufacturing-driven economies in 2017."*

Sadly, what Mr. Fishwick offers would be rightly described as a guess and should be read as though it was interpreted from a scattering of chicken bones. In fact, with oil currently far below $35 per barrel he is already wrong, in part. We simply don't know. Even if one could accept Mr. Fishwick's economic proposition, it would hold little predictive value as it relates to security prices which may respond in advance of or with a lag behind fundamental developments. As value investors, the only guiding light we have is long-term value. From these realizations arise value mantras such as "we don't try to pick the bottom" and "we prefer investments where the risk is time not price".

I recently enjoyed reading an article written by Thomas Kaplan, a very successful natural resources investor. Electrum Group is his holding company. In response to the question as to what will trigger the appreciation of his deeply out of favor investments and when will it happen, Kaplan offers bluntness afforded those who have made enormous sums through past success.

I greatly prefer Kaplan's answer to Mr. Fishwick's both for its integrity and its utility.

> *"What makes me so confident on the eventual outcome besides the fact that it has the whiff of inevitability about it?...My response is usually found to be disappointing: 'It will just happen one day and that will be that.' A 'that's it?' stare invariably meets my rejoinder. …Fundamentals take time to gestate and usually reveal themselves when they are least expected. After all, they don't ring a bell to say it's time to buy or sell."*

I can't say when the Fund ought to outperform. However, I have attempted to offer decades of my experience and evidence that the Fund's poor performance does not invalidate either the strategy or the Fund's investments. Quite the contrary! Historical precedent would suggest that periods such as the one we have endured tend to set the Fund up for outstanding future performance. As I reflect upon the valuations of the businesses we own, it is hard for me not to think of the Fund as something of a coiled spring. Notwithstanding my considerable personal investment in the Fund, I have continued to add to my holdings in 2016 with the personal view that the Fund is as attractively valued as it has been since the depths of the Global Financial Crisis. I thank you for your confidence and loyalty and look forward to rewarding you for your patience.

Sincerely,

The Third Avenue International Value Team

Matthew Fine, Lead Portfolio Manager

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M.J. Whitman LLC, Distributor. Date of first use of portfolio manager commentary: 2/19/2016

About Third Avenue Management

Third Avenue Management LLC is a New York-based global asset manager that has adhered to a proven value investment philosophy since its founding in 1986. Third Avenue's disciplined approach seeks to maximize long-term, risk-adjusted returns by focusing on corporate financial stability, and price conscious, opportunistic security selection throughout the capital structure.

If you would like further information about Third Avenue Funds, please contact your relationship manager or email clientservice@thirdave.com

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