THIRD AVENUE REAL ESTATE VALUE FUND

Portfolio Manager Commentary

INSTITUTIONAL: TAREX | INVESTOR: TVRVX

April 30, 2016

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Dear Fellow Shareholders:

We are pleased to provide you with the Third Avenue Real Estate Value Fund's (the "Fund") report for the quarter ended April 30, 2016.

PORTFOLIO ACTIVITY

In last quarter's letter, we emphasized the significant discounts at which the Fund's securities were trading relative to underlying property values. In fact, at that time the securities in the Fund were trading at more than a 20% discount to our conservative estimates of Net Asset Value ("NAV") on average—a level that had only been reached at three other points in the past decade. Since then certain macro concerns have dissipated, strong fundamentals have started to weigh back in, and most security prices rebounded during the quarter, leading to one of the Fund's strongest quarters in its 18-plus year history with the NAV increasing by 11% during the period. Notwithstanding the positive performance, valuations remain attractive as the discount to NAV for the Fund's holdings remains at approximately 15% exceeding the historical average. Simply put: Real Estate remains cheaper on Wall Street than Main Street.

After adding four new securities in the first quarter, portfolio activity was more modest in the second quarter as most securities prices increased, making the price-to-value proposition less favorable for new investments under consideration. The Fund's UK exposure was increased with a new position in the common stock of Land Securities plc ("Land Securities"). Land Securities is a very well-capitalized UK-based Real Estate Investment Trust ("REIT") that owns a high quality portfolio of office and retail properties largely focused in London ($14 billion appraisal value) and is financed with very moderate debt levels (loan-to-value ratio of less than 30%). The company's office portfolio is mostly located in the Midtown and West-End submarkets of London, where it owns a collection of class-A properties that are approximately 95% leased on an average term of more than 8 years. Land Securities' retail portfolio is more regional in nature, with a productive mix of regional malls and power centers in urban centers throughout the country that are 96% leased, as well as highly coveted street retail properties in central London. In addition to this income producing real estate, Land Securities is also in the final stages of delivering more than £2.5 billion of profitable developments including offices in central London that are substantially pre-leased as well as a large retail scheme in Oxford. After these projects are completed, it is not inconceivable that Land Securities will follow the lead of other large REITs in the US and Australia (more established REIT markets) and split into two separate companies to eliminate the discount at which its shares trade. Such a transaction would likely entail the company creating (i) a London focused REIT, or a "London specialist" and (ii) a "pure-play" retail REIT which could be a standalone entity or potentially merge with other another retail REIT to gain additional scale (i.e., clout with retailers). If not, we believe the company's CEO, Rob Noel, will find additional avenues to surface value, which could include the company selling stabilized assets at private market values to repurchase shares at a discount, utilizing the company's excess capital to make opportunistic investments should opportunities materialize, or a combination thereof.

On June 23, 2016, Britain's citizens will head to the polls and decide whether the country should remain as a member of the EU or begin a multi-year process of severing ties with the Eurozone (i.e., Brexit). Fund Management recognizes that this historic vote will create uncertainty in the near term. In fact, many major leasing decisions have been pushed out and certain property transactions have already been delayed. Further, should Britain actually opt for a Brexit, there will likely be further disruptions in the capital markets and certain multi-nationals will likely relocate headquarters and staffs. UK property stocks (including Land Securities) have declined recently as fears of Britain exiting the EU have escalated.

Notwithstanding a potential Brexit, we continue to believe that London will remain one of the most attractive real estate markets for long-term investors due to its diversified economy, political stability, educated and growing population base, strict zoning laws which act to limit new supply, strong property laws and favorable lease terms, a transparent and liquid transaction market, world class infrastructure, an ideal time zone for conducting international business, and some of the most talented management teams globally. Should weakness in property stocks persist, the Fund is likely to gradually increase its

Top 10 Largest Issuers and the Percentage of Total Net Assets as of April 30, 2016
Weyerhaeuser Co., 5.51%; Forest City Realty Trust, Class A, 4.56%; Westfield Corp., 4.54%; Macerich Co., 4.37%; Cheung Kong Property Holdings, Ltd.,4.34%; First Industrial Realty Trust, Inc.,4.24%; Rayonier, Inc., 4.21%; Henderson Land Development Co., Ltd., 3.73%; Brookfield Asset Management, Inc., 3.73%; Inmobiliaria Colonial SA, 3.73%. Holdings are subject to change without notice.

UK exposure (currently 7% of net assets). If prices fall further with heightened sensitivity around the referendum, or an outright Brexit materializes, leading to further declines, the Fund may ultimately double its exposure (two years ago the Fund had 15% invested in UK property companies). As in all of the Fund's common stock investments, it will target the shares of businesses like Land Securities that are incredibly well-financed, able to withstand periods of market dislocations that the UK may experience with a Brexit, and capitalize on opportunities presented in times of turbulence to emerge stronger and more valuable once conditions stabilize.

Another real estate market that Fund Management believes has promising long-term prospects is coastal California. We are pleased to report that after quarter end, Newhall Holding Company (a long-time holding in the Fund that owns Newhall Ranch in Los Angeles County) and its manager (FivePoint Communities) has merged with three other master planned communities in California including: (1) The San Francisco Shipyard, (2) Candlestick Point in San Francisco, and (3) the Great Park Neighborhoods in Irvine to form FivePoint Holdings. The combined company is now the largest developer of mixed-use communities in coastal California. Through the Fund's investments in FivePoint, which represents approximately 4% of net assets, it will have exposure to some of the most strategic master planned communities in North America with an unrivaled value creation opportunity. The company plans to build approximately 40,000 residential homes and 20 million square feet of commercial space in some of the most desirable markets in the US including San Francisco, Los Angeles, and Irvine. In the process, the company also plans to further strengthen the surrounding communities with 15,000 acres of public parks and accessible open space and 10 new primary and secondary schools, as well as providing approximately 6,000 affordable residential units. The company will be led by CEO Emile Haddad, who was previously the manager of Newhall through Five Point Communities, and the company will have very strong sponsorship and a like-minded, long-term oriented shareholder base—the largest of which is Lennar Corp. (also a holding in the Fund) that will own approximately 45% of the combined company.

Newhall's merger with FivePoint marks a significant milestone for this investment and should serve as a catalyst for further value realization. The Fund originally entered this holding by purchasing the senior secured bank debt of Landsource Communities LLC ("LandSource") in 2008 at discounted prices. At that time, LandSource owned a prime asset in Newhall Ranch with more than 15,000 acres in Los Angeles County just 30 miles north of downtown Los Angeles and immediately off of I-5 and adjacent to Valencia. However, LandSource was saddled with very high debt levels from a previous ownership group, and given the depressed residential markets, it did not have the cash flow to service its financial obligations. After the Fund purchased the debt, LandSource filed for bankruptcy and Fund Management took an active role in the restructuring process, joining the ad-hoc creditors committee and working with other debt holders and constituencies to resolve the situation. Through Chapter 11 reorganization, the senior secured debt was ultimately converted to equity and LandSource emerged from bankruptcy in 2009 as Newhall Holding Company, a debt free real estate company that continued to own the Newhall Ranch—as well as other ancillary assets.

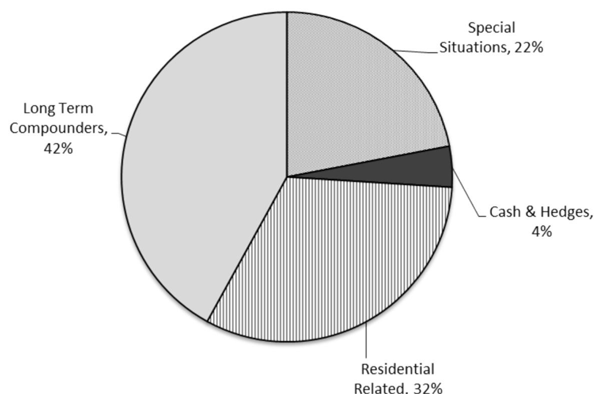
Since the reorganization, Fund Management has remained involved with Newhall, serving on the Board and working with management and other large investors to determine its long-term business plan and future direction. While the time that has been dedicated to this investment has been significant, it has been done with the view that the opportunity to create a meaningful ownership position in such scarce assets is one that rarely surfaces. Post-merger, the company is: (i) incredibly well-capitalized, (ii) managed by talented professionals, (iii) trading at a significant discount to conservative appraisal values, and (iv) poised to unlock additional value as its undertakes development at its highly desirable master planned communities in California. Initially, FivePoint Holdings will be a private company (no publicly-traded shares), but management and the Board intend to seek opportunities to "go public" either through an IPO or other strategic combinations. The Fund has an unrealized gain on this investment to date, but we believe the Fund's continued investment in FivePoint will provide even more substantial contributions to the Fund's returns in the years ahead.

PORTFOLIO POSITIONING

After taking into account the recent activity, the Fund has approximately 42% of its capital invested in real estate businesses that are involved in long-term wealth creation and seem poised to increase their underlying NAVs by 10% or more per year through developments, redevelopments, and opportunistic investments (e.g., Forest City, Brookfield, Westfield, Cheung Kong, and Henderson Land). An additional 32% of the Fund's capital is invested in real estate related businesses that have strong ties to the US residential markets where fundamentals continue to improve, which should lead to higher earnings and cash flows (e.g., Weyerhaeuser, Rayonier, Lowe's, and FivePoint). A further 22% of the Fund's capital remains invested in Special Situations such as M&A candidates (e.g., Macerich, First Industrial, Post Properties, Tanger Outlets) and other repositioning's (e.g., Trinity Place, IVG, Colonial). And finally, approximately 4% of the Fund's assets were comprised of cash & equivalents at quarter end. Therefore, the Fund remains nearly fully invested which is warranted given the aforementioned double-digit discount to NAV for the Fund's holdings.

ALLOCATIONS AS OF APRIL 30, 2016

(allocations subject to change)



REAL ESTATE: A SECTOR OF ITS OWN

Currently, there are ten sectors in the Standard & Poor's and MSCI indices that follow the Global Industry Classification Standards (GICS): Energy, Materials, Industrials, Consumer Discretionary, Consumer Staples, Healthcare, Financials, Information Technology, Telecommunications, and Utilities. Real Estate is included as a sub-sector of the Financial Services sector. Later this year though, the GICS sectors will be revised for the first time since being launched in 1999 and when trading commences on September 1, 2016, REITs and Real Estate Operating Companies ("REOCs") will officially be in a sector of its own. Given this development, many of the Fund's stakeholders have asked us what this means for the Fund and its holdings.

In Fund Management's view, the classification change doesn't impact the underlying value of the businesses that we analyze nor their fundamental prospects going forward. However, should these changes lead to more interest in Real Estate securities and additional capital targeting the sector from generalist funds, it may serve to close the discounts at which a number of property companies trade relative to their NAVs.

Initially, the weightings of the Real Estate sector within the ever influential S&P and MSCI indices will not change so additional capital flows from index funds and ETFs are unlikely to occur from the outset. This is unlikely to be the case for actively managed equity funds, though. This is especially true for actively managed funds that tend to keep sector weights within the same range of the broader indices and are currently "underweight" Real Estate within their Financial Services allocations. As a result, these funds are likely to allocate more capital to Real Estate companies in order to bring their Funds' weightings in-line with the indices as a standalone sector.

To quantify the potential impact, reports on the matter have concluded that active equity managers are on average 3.3% "underweight" Real Estate companies which would lead to approximately $146 billion of additional capital being invested in property stocks should these managers target equal sized weightings. When considering that the US REIT market is only $900 billion in size, these capital flows would likely have a significant impact on security prices.

Most analyses have stopped there though, which may prove shortsighted. It is our view that as more generalist investors evaluate Real Estate as a standalone sector, they will further appreciate the merits of investing in property and potentially even elect to "overweight" Real Estate. This is especially true when considering that the fundamental backdrop for both commercial and residential real estate generally remains quite attractive with resilient demand for most property types (albeit at a measured pace) at the same time that supply levels remain modest (outside of a few select markets), which has led to real estate businesses reporting higher levels of cash flows and earnings. As evidence, industry analysts have reported that US real estate companies have increased Funds from Operations (a real estate measure of cash flow or earnings or "FFO") by approximately 11% during the first quarter of 2016 relative to the prior year. This is in stark contrast to most sectors which continue to struggle to increase both the top and bottom lines. To wit, companies that comprise the S&P 500 have reported a 6% decline in earnings during the first quarter of 2016 compared with a year earlier.

Should some of these active equity managers recognize the appeal of Real Estate and look to increase their exposure to the sector, we would encourage them to look at the Fund's underlying holdings. The Third Avenue Real Estate Value Fund is almost exclusively comprised of interests in businesses that are super well-capitalized with stocks trading at significant discounts to NAV despite generating robust results, if not industry leading. For instance, two of the Fund's core holdings, Forest City and First Industrial have reported a 15% and 16% increase in FFO per share during the first quarter, respectively. Internationally, results have been just as strong with companies like Colonial in Spain and Westfield in Australia reporting 29% and 20% increases in their stated NAV's, respectively, over the past year.

In addition, a number of these companies are using their excess capital to repurchase shares at discounted prices to further enhance value for remaining shareholders. We estimate that 40% of the Fund's holdings repurchased shares in the first quarter and accounted for some of the most significant stock buyback programs in the Real Estate industry (e.g., Equity Commonwealth, Macerich, Weyerhaeuser). This includes industry leaders in Asia where buyback programs aren't as prevalent (i.e., Cheung Kong Property, Hysan Development).

Whether or not the generalist community will fully appreciate the Real Estate sector in the months and years ahead remains uncertain. As long-term investors in the

Fund already know though, an allocation to high-quality real estate companies with discounted securities and prospects to compound value over time is one that has always deserved a standalone role within a portfolio. Since the Fund was launched in September 1998, the Third Avenue Real Estate Value Fund has generated an annualized return of 10.7% (after fees) versus a 6.1% annualized return for the S&P 500 Index and a 5.6% annualized return for the MSCI Global Index (both before fees).[1]

We thank you for your continued support and look forward to writing to you again next quarter.

Sincerely,

The Third Avenue Real Estate Team

Michael Winer
Lead Portfolio Manager

Jason Wolf
Lead Portfolio Manager

Ryan Dobratz
Lead Portfolio Manager

1 The Fund's Institutional share class one year, five year and ten year average annual returns for the period ended April 30, 2016 were -6.06%, 7.48% and 4.17%, respectively. The Fund's Institutional share class one year, five year and ten year average annual returns for the period ended March 31, 2016 were -6.89%, 8.01%, and 3.94%, respectively. 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. The Fund's total operating expense ratio, gross of any fee waivers or expense reimbursements, was 1.10%, as of October 31, 2015. 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. Prospectuses contain more complete information on management fees, distribution charges, and other expenses. Please read the Prospectus carefully before investing or sending money. For current Fund performance or a copy of the Prospectus please visit our website: www.thirdave.com or call 800-443-1021. M.J. Whitman LLC, Distributor. Member FINRA/ SIPC.

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If you should have any questions, please call 1-800-443-1021, or visit our web site at: www.thirdave.com, for the most recent month-end performance data or a copy of the Funds' prospectus. Current performance results may be lower or higher than performance numbers quoted in certain letters to shareholders.

M.J. Whitman LLC, Distributor. Date of first use of portfolio manager commentary: May 23, 2016