THIRD AVENUE MANAGEMENT

THIRD AVENUE INTERNATIONAL VALUE FUND

Portfolio Manager Commentary

INSTITUTIONAL: TAVIX | INVESTOR: TVIVX

April 30, 2016

Matthew Fine, CFA | Lead Portfolio Manager

Dear Fellow Shareholders:

We are pleased to provide you with the Third Avenue International Fund (the "Fund") report for the quarter ended April 30, 2016.

FUND PERFORMANCE

Our previous Third Avenue International Value Fund letter described our inability to predict the timing of favorable performance, which we expected to result from the appreciation of our deeply out of favor positions. We are pleased to report some small measure of reconciliation of price to value has occurred producing strong performance during the quarter. For the three months ending April 30th 2016, the Fund returned 20.21%[1] as compared to MSCI AC World ex US Index, which returned 9.91%. We use the expression "small measure" here to emphasize our view that, recent performance notwithstanding, our positions have not remotely been reconciled to their respective long-term values and that, in aggregate, the portfolio's undervaluation has barely been dented. Positive performance this year has in large part been driven by our holdings that performed most poorly in 2015 and were among the most out of favor sectors globally until roughly mid-February of this year. For the year to date period through April 30th, four of our top ten performance contributions came from companies with a majority of their businesses located in Latin America while two of our top ten contributors were copper mining companies. The Fund also benefited from the appreciation of two European industrial companies as well as from our holding in Weyerhaeuser (WY), which we added to materially in February as the stock declined, we believe for technical reasons related to its merger with Plum Creek. Following the February closing of that merger the stock appreciated strongly.

BRAVE NEW WORLD

In recent months I have frequently been reminded of Aldous Huxley's most famous work *Brave New World*. In this fictional work Huxley crafted a "New World" in which the citizenry are biologically engineered in test tubes and psychologically conditioned from birth such that each member of society fulfills his or her prescribed role by reacting to cues in the preordained manner. The purpose of all of this engineering is to produce a highly governable and stable society, stability being the prerequisite for happiness. The "New World", which is ruled by a Controller, is an economists dream and for those who follow developments in central banking, the analogy may already be clear. In rare instances when emotions other than happiness - such as fear, anxiety or depression - are able to percolate up through all of the engineering in Huxley's world, "soma" (a pharmaceutical panacea) is consumed liberally. Yet, humanity has not completely been engineered from existence. Lying beyond the borders of the "New World" are reservations full of "savages", humans born by natural means and left subjected to the uncomfortable variability of human psychology.

Coincidentally, it was one of Huxley's countrymen, British economist Lionel Robbins, who is credited with the most widely used definition of economics - "Economics is the science which studies human behavior as a relationship between given ends and scarce means which have alternative uses". Economics is a study of human behavior, thus primarily a social science making central banking very much a sociological experiment on grand scale. One of the great challenges for economists is that the ceteris paribus (all else being equal) conditions necessary for using results from past experiments to reliably predict outcomes of present experiments never exist in economics. Said another way, a central bank policy choice today can in no way be counted upon to have the same impact today as it did in the past. All else is never equal in economics. Even over short periods of time, the actors are altered by experiences that cause scars and prejudices. People can become acclimated to conditions they previously found highly discomforting and occasionally become terrified of circumstances they lived with quite

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 April 30, 2016: Rubicon, 6.30%; Tenon, Ltd., 5.85%; Capstone Mining Corp., 4.78%; Arcos Dorados Holdings, Inc., 4.72%; Cosan, Ltd., 4.21%; Atrium European Real Estate, Ltd., 3.57%; Petroleum Geo-Services ASA, 3.44%; Global Logistic Properties, Ltd., 3.27%; Prosegur Cia De Seguridad S.A.3.26%; Antofagasta PLC, 3.12%

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 -13.27%, -2.20%, and -0.03%, 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 -9.75%, -2.33% and -0.08%, 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 1.61%, as of October 31, 2015. Please be aware that foreign securities from a particular country may be subject to currency fluctuations and controls, or adverse political,social, economic or other developments that are unique to that particular country or region. Therefore,the prices of foreign securitiesin particular countries orregions may, attimes,move in a different direction than those of U.S. securities. 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.

comfortably only a short while ago. Financial institutions evolve in critical ways and risks shift from one place to another. A wise person once said, “now is always the most difficult time to invest” because “now” is always to some extent unprecedented. In a 2015 interview, Nobel Prize winning economist Robert Shiller and his interviewer (Charles Rotblut) summarize one of the primary issues:

> **CR:** *Regarding feedback loops, in your book, you wrote about how rising stock prices leads to greater wealth, which leads to more spending, which leads to higher corporate profits, which in turn leads to higher stock prices.*
>
> **RS:** *Right. That's it. And that's something that's hard to quantify, because we don't have quantifications of some of its elements; it depends on people and stories. The kind of stories that develop and become part of our culture. Most economists are not sociologists, so it's not in their normal toolkit to think about how culture is changing.*

In spite of being armed with the tools of mathematics, finance, econometrics, and history, central bankers are forced to rely upon educated guesses as to how economic citizens might react to combinations of policy measures. They are flying by the seats of their pants in a very dynamic world. The task of attempting to fine-tune an economy is further complicated by the demonstrated inability of economists to forecast future economic activity (GDP growth rates) with any degree of accuracy, which makes them exactly as good at forecasting as everyone else. Long time series of results from economist surveys reveal consensus GDP predictions far more volatile than actual realized GDP, very similar to how emotionally charged equity markets demonstrate far higher levels of volatility than business results justify.

We would point to the current extraordinary level of global central banking experimentation as the most defining characteristic of the current investing environment, one in which the prices of entire classes of securities are deliberately manipulated by various developed nation central banks. It is an environment in which new “unconventional” central bank policy tools are ginned up one after another and one in which the bulk of our investment community seems devoted to the effort of betting on the size and shape of the next central bank action to be birthed in coming weeks. I would be hard-pressed to recall a time when our investment approach felt more differentiated from the mainstream. Pockets of elevated volatility and vast quantities of severely mispriced securities are symptoms of the deep dysfunction. To detail one effect of central bank policy measures, Fitch Ratings recently released its findings that the quantity of sovereign debt with a negative yield currently totals $9.9 trillion. Two thirds of that debt resides in Japan with the remainder in Europe, according to Fitch. The average yield on the $9.9 trillion is currently negative 0.24%, which suggests that if owners hold these securities to maturity, they will at best lose roughly $24 billion annually in exchange for having incurred the credit risk. [2]

Just this past week, Bank of Japan Governor Haruhiko Kuroda and Japanese Prime Minister Shinzo Abe both spoke publicly about their concern regarding the recent volatility of the Japanese yen. Recall that Kuroda has presided over the Bank of Japan's purchase of approximately one third of all Japanese government bonds outstanding and roughly half of the entire Japanese ETF market. He added during his speech that he would not hesitate to expand stimulus measures further in order to achieve his 2% inflation target. To express surprise at currency market volatility while conducting this type of radical operation, coincident with similar operations by other major central banks, arguably says more about the speaker than the subject matter.

Lionel Robbins was also known to lament that economists have a terrible habit of studying “what ought to be” rather than “what is”. One manifestation of this habit is the typical economic framework populated by “rational investors”, who are conceptually quite similar to Huxley's fictional “New World” citizens and equally as fictional. For example, an economists reasoning might go as follows - if I the governor of the Bank of Japan set out to hammer interest rates down beneath the floorboards and create a deluge of liquidity by purchasing unheard quantities of Japanese Government Bonds, depressing corporate borrowing costs to virtually nil, “rational” companies “ought” to borrow at those depressed rates or deploy hoarded cash earning zero or less than zero in order to invest in capital projects that will in turn stimulate the economy. Voila! And if borrowing costs are driven to levels low enough even capital projects with paltry returns and outsized risk “ought to be” irresistible. Similarly, if I willfully manipulate the market prices of large swaths of the Japanese equity market higher and higher, a wealth effect “ought” to get “rational” beneficiaries of that exercise back to shopping malls and car dealerships. The citizens and corporations of Japan have not been responding in the hoped for manner. Alas, in the real world, economic citizens cannot be relied upon to respond to the Controller's cues as they do in Huxley's world.

Nearly six thousand miles from Tokyo, one of the original attractions to the concept of a European Union was that it was likely to reduce sovereign cost of capital for those “lesser” nations joining the E.U., offering a “convergence” of European sovereign borrowing costs. Years later the European Sovereign Crisis resulted from a rapid divergence of borrowing costs as the creditworthiness (or lack thereof) of the individual sovereigns was once again priced into their respective bonds. Since that crisis, the European Central Bank (“ECB”) has worked “by any means necessary” to thwart the pricing of sovereign risk within the European Union (if you don't like the temperature, smash the thermometer). Furthermore, the fact that some central banks have recently developed the habit of

2 Fitch Ratings. "Negative Yielding Sovereign Debt: Investors' Cash Flow Squeezed" (May 4, 2016).

responding with language and policy to equity market fluctuations is concerning for a few reasons. First, equity markets and economic growth rates have a very weak relationship. Statistically speaking, equity markets have historically been extremely poor predictors of GDP growth rates. Conversely, higher GDP growth rates do not correlate to higher equity market returns. In other words, the stock market doesn't really tell us much at all about the health of an economy. It may seem counterintuitive but it's true. As Marty has discussed in many past letters, we have never been believers in strong forms of the Efficient Market Hypothesis but with central banks acting in ways that are only rational to the extent that their motivation is to manipulate securities prices in order to portray an image of stability, it becomes virtually impossible to argue that market pricing is working efficiently.

> *"Stability," insisted the Controller, "stability. The primal and the ultimate need. Stability. Hence all this."*

In the following paragraphs we turn to the practical matter of how the Fund operates in the current environment. The aspects of our approach articulated below are always a critical part of our thinking, though their importance arguably becomes elevated in today's environment:

THE FUND OPERATES IN THE SAVAGE WORLD

The Third Avenue International Value Fund does not own securities for which central banks have asserted all is well. We do not traffic in developed nation sovereign bonds, high-grade European corporate credit, low-yielding Japanese REITs or other securities generally priced on a spread to microscopic or even negative interest rates. The Fund seeks investment opportunities by consciously investigating areas of turmoil, volatility and investor discontent. Whether the nature of the turmoil relates to a country, an industry or an individual company, our initial attraction tends to begin with pricing that reflects fear and heightened levels of perceived risk, meaning the pricing of risk is fully functioning. Being savages as we are, we are actually seeking areas where the pricing of risk is working overzealously, giving us great bargains by overcompensating for actual levels of risk. We were very active investors in the midst of the Global Financial Crisis and the European Sovereign Crisis for example. Recent areas of opportunity in the savage world include metals mining, oil services and emerging markets equities, to name a few.

THE FUND DOES NOT BUY RELATIVE VALUE

There is a legitimate business in purchasing securities that are underpriced relative to other similar securities, but it is not our business. We are absolutists when it comes to valuation and believe that a set of dangers accompanies the ownership of securities that are cheap only relative to other more expensive securities. One component of that effort is that we strive to avoid businesses that seem cheap relative to wildly overpriced acquisitions, which may make sense only when considering the artificially depressed financing costs we see pervasively today. At the most recent Berkshire Hathaway annual meeting even Warren Buffet conceded that he paid more to acquire Precision Cast Parts than he would have if interest rates were at higher levels illustrating the extent of the upward pressure being exerted by the present rate environment. Absolutism also means that we are not attracted to high dividend yield equities on the merits that they offer value relative to corporate or sovereign bonds, nor do we devote our efforts to securities that seem inexpensive relative to businesses priced to produce paltry returns simply because they are perceived to have defensive qualities. We do own a number of securities that produce substantial cash yield but our attraction derives from the prospect of a compelling total return, not a relative yield. Fortunately, the Fund has a terrific mandate. Employing a concentrated, benchmark-agnostic approach alleviates any pressure to invest in overpriced industries or regions. We also do not object to holding cash in the absence of opportunities, though our investment universe and investible market capitalization spectrum are so broad that an inability to find exciting absolute value is a rare occurrence.

WE SELL WHEN PRICES REFLECT OPTIMISM

It wasn't until very recently that the effectiveness of Abenomics and the Bank of Japan's efforts came to be widely in question. During 2014 and 2015, we parted with all four of the Japanese equities we owned (Asatsu-DK, Mitsui Fudosan, Daiwa Securities and Otsuka Corp) not because we had an overriding macroeconomic view but because the idea that Abenomics had a high probability of jumpstarting inflation and the Japanese economy had become conventional wisdom. In that highly optimistic environment, each of the four companies we owned ceased to be inexpensive on a "what is" basis. Counterpoints to our view at that time revolved around the view that Japanese insurance and pension assets would be reallocated into Japanese equities, which might propel valuations even higher, as well as the economic impacts that might be felt if Abe was able to hit the target with his "third arrow" of structural reform. Firstly, we are of the belief that many people have significantly underestimated the obstacles to much needed structural reforms. We would argue that the incredibly slow pace of change to date validates this view. Secondly and more importantly, we have no interest in owning expensive securities hoping that optimism will continue to grow so that we can later pawn them on some greater fool at even higher prices. To be clear though, we are not negative on Japan or Japanese equities. Many Japanese equities have performed poorly in recent months and it is entirely conceivable we could find worthy opportunities at any point, of course being cognizant of the distortions that are ongoing.

EXPECT THE UNEXPECTED

We work diligently to avoid making investments that are contingent upon a specific economic forecast. For example, one might conclude that negative 24 basis points of yield is a respectable real yield on a sovereign bond if one forecasts a materially deflationary environment in the future. Whether illustrated by the steady downward adjustment of Fed dot plots or Robert Schiller's gauge of market inflation expectations, which consistently shows that the investment community has an appalling long-term track record of forecasting even next year's rate of inflation, excessive faith in forecasts can be deadly. We have lost track of how many currency forecasts have been abandoned since the outset of 2016 as the U.S. dollar was almost unanimously expected to outpace all others, only to have depreciated materially against most. Likewise, ownership of the lowly Brazilian real was perceived to be a one-way train to poverty as we entered 2016 only to be among the world's best performing currencies year to date. It is a gross understatement to say that accurate macroeconomic forecasting is exceptionally difficult. With experience we have developed the habit of viewing forecasts with deep skepticism, particularly those generated by models based upon what "ought to be" if "all else is equal" in a world populated by "rational" investors. Instead we prefer to consider a wide range of economic scenarios as we evaluate potential investments. Much higher levels of future developed world inflation, a major Japanese debt and currency calamity, wide-spread public and private pension insolvencies and, a future Act II of the European Sovereign Crisis are all examples of scenarios we consider possibilities. Had we expected the price of copper to be just above $2 per pound today we would certainly not have purchased two copper mining companies during 2014. However, while the price is unexpected and in our view far too low to be sustainable, we were prepared for the unexpected in the sense that we consciously purchased companies with combinations of cost positions and financial strength that equip them for these types of environments.

KNOW WHY THE NUMBERS ARE WHAT THEY ARE

Excessive liquidity and hyper-low interest rates in one country typically do not stay contained in their home country. Investors chase higher yields in carry trades and low borrowing costs or an elevated currency in one country often encourages acquisitions of businesses in another country. Indeed, after a multi-year decline we are presently seeing a resurgence of U.S. dollar-denominated borrowing by emerging market corporations, increasing currency mismatch risk. We have also seen evidence of more aggressive international lending by Japanese banks at rates otherwise unheard of to the prospective borrowers. Many Japanese and Chinese corporations, insurance companies for example, have been on international acquisitions sprees. These activities are often associated with extremely high acquisition prices and frequently create currency mismatches for the buyer. For these reasons and many others it is critical in our fundamental analysis that we go further than simply knowing what the numbers are (borrowing costs, acquisition multiples, returns on assets, real estate cap rates, etc.) by striving to understand why they are what they are and, by implication, why they might change in one direction or the other.

FUND ACTIVITY

The quarter saw a robust amount of trading activity with opportunistic additions made to seven positions, mostly during market lows in February. In addition to purchases of Weyerhaeuser (WY), as mentioned above, we also purchased shares of BinckBank (BINCK:NA), Daimler (DAI:GR), Global Logistic Properties (GLP:SP), Interfor (IFP:CN), Leucadia National (LUK) and Nexans (NEX:FP). During the quarter we gradually exited our position in Oberoi Realty (OBER:IN).

The Fund initiated one new position during the quarter by purchasing shares of Henderson Land Development Co Ltd (12:HK). Henderson Land is an extremely well-capitalized Hong Kong property company. The company owns several landmark Hong Kong office properties and retail properties of exceptional quality. In the case of class A central business district office properties, the balance of supply and demand remains firmly in favor of property owners. Meanwhile, Henderson's retail property portfolio is comprised of assets that should offer far more resilience than most in a challenging environment. Henderson also develops residential properties in Hong Kong and Mainland China. Uniquely though, the company owns a portfolio of agricultural land with proximity to densely developed suburban areas surrounding Hong Kong. The company has recently made some progress converting parcels its agricultural land to higher and better use residential development projects. Finally, Henderson stands out among its peers for having an unusual number of existing assets well-suited for redevelopment, particularly so in fully developed areas of central Hong Kong. We believe buying shares at roughly half of the company's current liquidation value, taking into consideration its controlling stake in Hong Kong and China Gas Co. (3:HK), will mitigate company and industry specific risks while simultaneously providing a good probability of favorable long-term returns.

Thank you for your confidence and your loyalty.

Sincerely,

Third Avenue International Value Team

Matthew Fine, Lead Portfolio Manager

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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