THIRD AVENUE MANAGEMENT

THIRD AVENUE VALUE FUND

Portfolio Manager Commentary

INSTITUTIONAL: TAVFX | INVESTOR: TVFVX

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Dear Fellow Shareholders:

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

MACRO? NO THANKS. WE'LL TAKE FUNDAMENTALS.

We know the macro environment can be unpredictable. So macro forecasting as a starting point for our investment process has never been a part of our philosophy. The events that unfolded over the course of our fiscal third-quarter (May to July) are an excellent reminder of why such an effort is futile and why our focus continues to be on company fundamentals. That doesn't mean we won't exploit opportunities created by macro-induced market movements. We can and do.

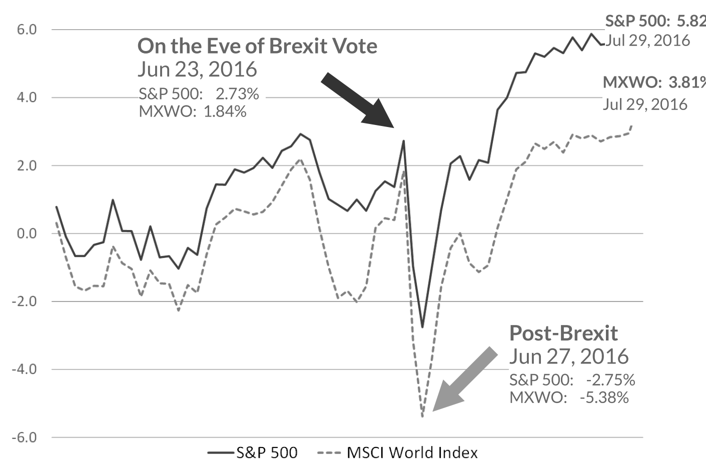
As the quarter began, broader market expectations were for a continued strengthening of the U.S. economy, supported by growing employment, increasing wages and low inflation -- essentially a continuation of the economic outlook that Fed Chairman Yellen described in December 2015, in conjunction with the 25 basis point increase in the Fed Funds rate. That point in time, in her words, marked "the end of an extraordinary era" of low interest rates. The broader market mood was upbeat, with the MSCI World Index[1] ("MXWO") rising 1.84% and the S&P 500[2] rising 2.73% quarter-to-date through June 23, the eve of the Brexit vote.

Britain's vote to leave the EU was an unexpected shock to the markets, which seemed to expect the opposite outcome. The quarter-to-date return on the MXWO and the S&P 500 fell 5.38% and 2.75%, respectively through June 27th. Hopes for a June or July U.S. Fed Funds rate hike were dashed, and the interest rate on the U.S. 10-year fell sharply from 1.75% June 23 to 1.37% on June 27.

And then began what many market pundits are calling the "most hated rally." Most macro forecasters had just finished preparing for a Brexit sell-off. But then came the prospect of more government stimulus globally, with Britain, the EU and Japan promising more actions, and by default the expectations for U.S. Fed Funds hikes diminished, providing the equivalent of yet another round of quantitative easing ("QE"). By July 29th, the quarter-to-date return on the MXWO and the S&P 500 were up sharply, to a positive 3.81% and 5.82%, respectively, with the interest-rate-sensitive sectors of Utilities (+5.94%) and REITS (+10.07%) outpacing the indexes. The 10-year yield rallied to 1.56% by July 21st and finished the quarter at 1.45%.

S&P 500 & MSCI WORLD INDEX

Daily Returns: May 2, 2016 to July 29, 2016



Source : Factset

The combination of more promised government stimulus globally and the expectations for U.S. Fed Funds hikes diminishing, provided the equivalency of yet another round of quantitative easing (QE). The equity markets rose in similar fashion as they have since the U.S. Fed unleashed round one of its QE in 2009, i.e. interest rate sensitive sectors of Utilities and REITS outpaced the MSCI World Index return. While we will not make a market call to forecast when rates might hit bottom, we do generally believe that the decline in interest rates is not reflective of a market with less risk, but a global search for yield and capital safety, as the yields on many non-U.S. government bonds, including Germany and Japan, imply negative returns.

Portfolio holdings are subject to change without notice. The following is a list of Third Avenue Value Fund's 10 largest issuers, and the percentage of the total net assets each represented, as of July 31, 2016: Comerica, Inc., 6.21%; Weyerhaeuser Co., 6.14%; Bank of New York Mellon Corp., 5.72%; Brookfield Asset Management, Inc., 3.77%; PNC Financial Services Group, Inc., 3.66%; White Mountains Insurance Group, Ltd., 3.65%; Cavco Industries, Inc., 3.65%; CK Hutchison Holdings, Ltd., 3.56%; Total S.A., 3.54%; Alleghany Corp., 3.21%

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.

2 The S&P 500 Index is an unmanaged index (with no defined investment objective) of common stocks. The S&P 500 Index is a registered trademark of McGraw-Hill Co., Inc.

Indices are not securities that can be purchased or sold, and their total returns are reflective of unmanaged portfolios. The returns include reinvestment of interest, capital gains and dividends.

This flight to safety better explains the movement in the U.S. 10-year yield than does the fact that on March 6th, 2009, the market bottom of the great recession, the U.S. Government public debt stood at $10.9 trillion and the yield on the 10-year was 3.83% versus $19.41 trillion, and 1.45%, respectively, on July 29 2016.

The unpredictability of the macro is why our focus continues to be on the micro. The fundamentals that impact our investee companies are paramount to us. Our aim is to invest in companies with strong financial positions that are well-positioned to grow and compound over the longer-term and whose securities we can buy at discounts to Net Asset Value ("NAV").

PERFORMANCE

Fund Results Positive with Few Outliers

For the quarter-ended July 31, 2016, the Value Fund returned 2.42%[3] vs. 3.81% for the MXWO and 5.81% for the S&P 500. Looking at attribution vs. the MXWO, security selection was positive 1.39%, while allocation weightings detracted 2.35%. In addition to strength in interest rate sensitive sectors, Health Care and Information Technology were strong sectors. Fundamentally, the portfolio did not have material outliers to the positive or negative in the quarter.

Calendar year-to-date performance remains positive, with the Value Fund up 6.45% vs. the MXWO up 5.31% and the S&P 500 up 7.65%.

ACTIVITY

Opportunistic Buying and Selling

During the quarter, we took advantage of the market volatility. We sold securities near or above our Fair Value NAV estimates and near market highs of the quarterly period. We used the Brexit-related sell-off to establish two new positions, Amgen and LivaNova Plc, and increased the weights of several existing positions. We trimmed into strength early in the quarter, with portfolio cash reaching 9.94% by June 17th. Then we opportunistically added positions, and continued to build newer positions into the Brexit sell-off, so that as of July 12th cash had fallen to 6.87%.

Our patient buying stance was rewarded, as we were able to significantly continue to build positions added earlier this year. We increased our weighting in Johnson Controls, as the company continued to move towards closing its merger with Tyco International. We added to Ralph Lauren, where the new CEO Stephan Larsen laid out his long-term strategy to rebuild the brand at an investor day in June. We also added to Harman International, as the company continued to win new customers and build its backlog to record levels, while improving margins and cash flow.

We were able to add to Weyerhaeuser, Masco and Devon in February on weakness, and subsequently trim back these positions in the quarter on significant price appreciation ranging from roughly 40% to 90%. As we have previously discussed, we do opportunistically adjust our position weightings as part of our portfolio structure decisions.

We received Shire ADRs along with cash upon the completion of the acquisition of Baxalta.

We exited our long-held position in Symantec at a cumulative IRR of 54.2%. The company announced an agreement to acquire Blue Coat, a provider of web security solutions. While the transaction brings Symantec a new CEO and opportunities in the growing cloud access security broker market, the price paid seems expensive (6.1x non-GAAP FY16 revenue, 10.7x maintenance revenue and 20.9x adjusted EBITDA) given the estimated mid-single digit market growth of Blue Coat's historical secure gateway business. Further, the integration of the businesses is not without its challenges, especially given the large transformation Symantec has just undergone with the sale of its Veritas business. We decided to redeploy the proceeds elsewhere.

OPPORTUNITIES IN HEALTHCARE

In the fiscal third quarter, our "bargain bin" happened to contain some healthcare companies. This is not a call on healthcare nor a decision based on benchmark sector weightings. The fundamentals of each company ultimately drove our decision. And volatility in the market caused by Brexit enabled us to get attractive pricing. Opportunities arise when industries with good longer-term growth prospects become out-of-favor for short-term reasons or for company-specific reasons such as a company missing quarterly earnings. Opportunities can also arise when a company engages in corporate operations which may not be recognized by top-down investors, as with the self-help discussion we wrote about in last quarter's shareholder letter, whether that be from cutting costs, rationalizing operational efficiencies or leveraging a strong financial position to use for mergers and acquisitions.

Admittedly, we are generalists and not experts in healthcare, but we are intrigued if we can find companies with a sizeable pipeline and an existing cash generative portfolio where we can acquire the security at or below the discounted value of the existing portfolio without attributing much value to the pipeline, i.e., when we're not paying much for a promising pipeline. At Third Avenue Management ("TAM"), we have invested in healthcare

3 The Fund's Institutional share class one year, five year and ten year average annual returns for the period ended July 31, 2016 were -1.15%, 4.21% and 2.45%, respectively. The Fund's Institutional share class one year, five year and ten year average annual returns for the period ended June 30, 2016 were -9.01%, 3.09%, and 1.85%, 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 1.09%, as of October 31, 2015. 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. 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.

companies ranging from pharmaceuticals to medical devices and contract research organizations over the years. The cash generative nature of many companies in the healthcare industry enables them to pay down debt while funding R&D and while using excess cash to return to shareholders via share buybacks or dividends or both. The overarching positive longer-term outlook for industry growth driven by aging of the population worldwide as well as the wealth effect of developing countries is also clearly positive.

According to the United Nations population division, people aged 60 and older comprise 12.3% of the global population, and by 2050 are expected to rise to almost 22%. Healthcare needs are typically higher, 4-5x higher by some estimates, for the elderly, given the higher proportion of chronic conditions. In the U.S., healthcare spending grew 5.3% in 2014, according to the Centers for Medicare & Medicaid Services, accounting for 17.5% of GDP. Healthcare spending has also increased in many developing countries over the years as those countries prosper and as life expectancies rise. Healthcare spending in China, for example is expected to grow approximately 11.8% per year between 2014 and 2018.

Of course, no investment is devoid of investment risks, and for our recent investee healthcare companies, these investment risks include competitive offerings, patent cliff challenges, efficiency of the R&D pipeline, healthcare reform, reimbursement risk, tighter regulatory environments and increasing pricing pressure.

NEW POSITIONS

Amgen

Amgen, which was founded in 1980, is one of the world's leading biotechnology companies. Interestingly, the biotech industry has matured over the years and some of the companies generate stable cash flows, not unlike some of the larger pharmaceutical companies. Amgen is one of these. Competitive issues, largely surrounding the biosimilar debate, have put pressure on Amgen's stock. Post-Brexit market volatility provided us an opportunity to acquire shares.

Amgen has a diversified product portfolio across six therapeutic areas: oncology/hematology, cardiovascular disease, inflammation, bone health, nephrology and neuroscience. Its key products are Enbrel for long-term inflammatory diseases such as rheumatoid arthritis; Epogen and Aranesp for anemia; Neupogen and Neulasta for treating neutropenia (a lack of certain white blood cells caused by cancer, bone marrow transplant, or after chemotherapy). Newer drugs include Repatha, which targets high cholesterol for the roughly 20% of the population who are intolerant of statins (the typical first line treatment), and Kyprolis for multiple myeloma, an incurable bone cancer. Its pipeline consists of 31 preclinical and clinical targets, 12 of which are in the later stages. Amgen also has a pipeline of 9 biosimilars, of which 3 are in late stage and for which the worldwide sales of the originator drugs totaled approximately $54 billion in 2015.

The company generated $9 billion in operating cash flow in 2015, up from $5.1 billion in 2011. The company has used its excess cash flow to fund growth as well as return cash to shareholders via both share buybacks and dividends. It expects to return 60% of adjusted net income to shareholders by 2018.

Amgen has longer-term opportunities for margin improvement from synergies and cost controls. The company initiated a large-scale "transformation" program in 2013 to focus on efficient allocation of resources. The plan included an approximately 23% reduction in its facilities footprint and a 20% reduction in headcount by the end of 2015, with a goal of generating $1.5 billion of annual savings and a 15-point increase in adjusted operating margin by 2018. So far, the company's adjusted operating margin has increased from 38% in 2013 to 48% in 2015 and 55% in 1Q16. Management believes it is on a path to achieve 52-54% by 2018. In addition, the company's new next-generation bio-manufacturing facility is on track. The facility is expected to increase bulk production capabilities at a quarter of capital costs, 1/3 of operating costs and 2x speed vs. conventional facilities, resulting in an estimated cost reduction of 60%+ per gram of protein.

Competitive threats confront any company and even more so for biotech and pharma companies as their products face patent expirations. Biosimilar products are newer to the marketplace and the regulatory pathway is still evolving, with questions of interchangeability with the branded drug still progressing. Biologics are scientifically more challenging than small molecule generic development, more costly to develop and require high-quality complex manufacturing. Price discounting to date has been substantially less than small molecule generics, but may vary over the longer-term. As such, we look to acquire shares at a reasonable estimate of the company's base business without giving much credit to the pipeline. We believe this provides downside protection for the competitive threats while providing opportunity for upside given the growing pipeline. We took advantage of volatility during the quarter to acquire shares of Amgen common at around a 25% discount to our estimate of NAV.

LivaNova

Investor neglect can be a source of new ideas while also providing an element of downside protection. We found this combination to be compelling in our purchase of LivaNova, which is the new name for Sorin and Cyberonics post their late-2015 merger. We think investor neglect was paramount, for Sorin, an Italian company, which merged with Cyberonics, based in Houston, changed its name and reincorporated in London. Indeed, we came across the company on a screen of our potential universe of companies, and had to do some digging into the new name we did not recognize, to realize the potential for these two well-known companies and the significant potential their merger offers.

LivaNova is a healthcare company with a $3 billion market capitalization that holds leading positions in cardiac surgical equipment, surgical heart valve replacement, neuromodulation and cardiac rhythm management. In its cardiac surgery division, LivaNova holds number one positions in Oxygenators and Heart Lung machines. It also is rapidly gaining share with its new sutureless Perceval heart valve, with a history of successful procedures in Europe and recently approved in the U.S. In Neuromodulation, LivaNova holds the number one position in devices for the treatment of drug resistant epilepsy, led by its success with its AspireSR device. LivaNova is also rapidly gaining share in cardiac rhythm management with Kora250 and Platinium in Japan and Europe, while retaining options on strategies to re-enter the U.S. market. In all, LivaNova holds number one positions in over 60% of its revenues.

LivaNova also has a strong self-help profile, with targeted synergies from its merger of $80 million over three years. As of its second quarter earnings call, LivaNova indicated it was ahead of the first phase of $19 million expected in 2016. Creditworthiness for the company is easily demonstrated by net debt of roughly $75 million.

The ability to compound earnings and book value growth is not only supported by its new product introductions and merger synergies, but also its compelling research and development pipeline, which LivaNova refers to as its New Ventures unit. In this unit, LivaNova is pursuing groundbreaking new technologies in percutaneous mitral valve repair and replacement, the adaption of its Neuromodulation technologies for treatment of central and obstructive sleep apnea and also the potential to treat heart failure through vagus nerve stimulation. Not only is the potential market opportunity for all three of these areas separately in excess of a billion dollars, but through its merger, LivaNova has multiple research efforts in each area to evaluate, streamline and prioritize.

Brexit created a window to initiate a position at under $50 per share for the Fund, which represents a compelling 50% upside to our fair value NAV target. Perhaps due to investor neglect on the name, LivaNova trades at a substantial discount to its U.S. peers. We think this discount and its relatively smaller market capitalization also provide downside protection, for the company would likely be attractive to a larger entity looking to expand its product franchise.

NAVIGATING A SHORT-TERM WORLD WITH A LONG-TERM VIEW

Earlier in this letter we referenced that some investors, due to a misjudging the short-term macro outlook, called the post Brexit market recovery "the most hated rally." We have never hated a market rally, and moreover don't consider the market in general a good corollary for our concentrated portfolio of 36 owned companies. We look at downside protection, the ability to compound growth over the long term and upside to our fair value NAV estimates as determinants of portfolio inclusion and position size.

As we look forward to the back half of the year, we remain excited about the potential of our portfolio, especially about the outlook, by definition, in our top holdings. We have written at length about these names in past letters, and over the quarter we continued to see positive developments worth mentioning. At Comerica, a major cost cutting program was announced and now adds a strong pillar of self-help to our thesis. At Weyerhaeuser, the Plum Creek merger continues to be absorbed well, and housing strength and real estate sales provide visibility into the near-to-medium term. Additionally, as opportunistic investors, we continue to seek and find compelling new opportunities to add to the Fund.

Again, we thank you for your trust and support and look forward to writing to you again at the close of our fiscal year in October.

Sincerely,

The Third Avenue Value Team

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