THIRD AVENUE MANAGEMENT

Portfolio Manager Commentary

THIRD AVENUE REAL ESTATE VALUE FUND

INSTITUTIONAL: TAREX | INVESTOR: TVRVX

March 31, 2017

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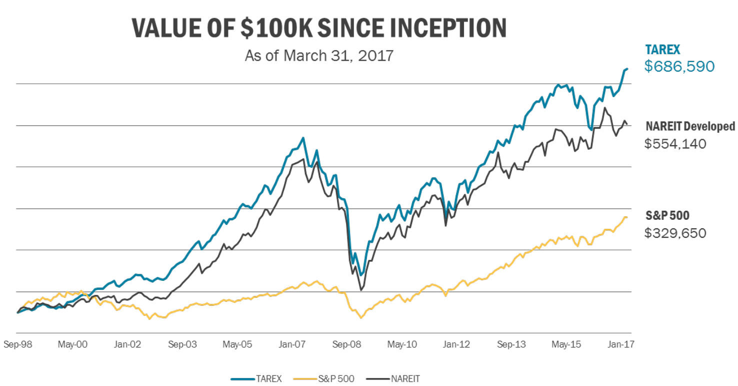
Dear Fellow Shareholders:

We are pleased to provide you with the Third Avenue Real Estate Value Fund's (the "Fund") report for the quarter ended March 31, 2017. During the quarter, the Fund generated a return of +8.17% (after fees) versus +2.31% (before fees) for the Fund's most relevant benchmark, the FTSE EPRA NAREIT Developed Index[1].

Fund Management remains most focused on long-term performance where it has earned a +10.95% annualized return since its inception in 1998[2]. As highlighted in the chart below, this has resulted in an initial investment of $100,000 in the Third Avenue Real Estate Value Fund having a market value of more than $686,000 (assuming dividends had been reinvested), or more than double the amount the same $100,000 would be worth had it been placed into a passive fund tracking the S&P 500 and held over the same time period[3].



Source: Morningstar

ACTIVITY

For more than a decade now, Fund Management has traveled to Florida in the first part of March to attend a global real estate conference. Over the years, the conference has expanded its lineup and now includes attendees from nearly 150 companies globally, making it a terrific opportunity to meet with executives from most of the Fund's portfolio companies, as well as to interact with the 800-plus industry professionals in attendance to exchange ideas and gauge sentiment.

With fundamentals for real estate generally sound in most markets (i.e., balanced levels of supply and demand), anxiety seemed subdued. However, there was one clear exception: Retail. In fact, the uncertainty surrounding retail real estate hasn't seemed this elevated since the Great Recession and security prices for most retailers and shopping center owners have declined materially over the past year as a result. The difference now, though, is that markets where the Fund is focused are not experiencing recessionary conditions. Instead, traditional bricks and mortar retailers in these markets are facing a structural shift in consumer shopping habits given the rise of e-commerce.

Retailers that have been slow to adapt to the new "omni-channel" model of retail (i.e., well-connected retail, e-commerce, and distribution channels) have been forced to retrench from unprofitable stores, if not close concepts entirely…..largely due to Amazon and its third party vendors. For instance, just over the past 12 months department store operators Macy's, Sears, and J.C. Penney's have announced intentions to close more than 300 mall-based stores. Further, specialty retailers such as Payless, American Apparel, and The Limited have filed for bankruptcy leaving more than 600 small shops vacant. In the process, a dark cloud has been cast over most retailers and shopping center owners.

To paint retail real estate with such a broad brush would be a mistake, in Fund Management's view. As Milton Cooper, the Executive Chairman of Kimco Realty—a leading US shopping center owner—once said: "Retail real estate in the US is not overbuilt, it's under demolished." We agree. And it is our view that the accelerated shakeout of marginal retailers will lead to the "demolition" of tertiary shopping centers, leaving "destination retail" locations such as market-dominant malls and well-located street retail properties more valuable over time, due to the following factors:

- **Declining Levels of Supply** It seems likely that certain department store operators, which have historically acted as anchors for mall properties, will be forced to reorganize through Chapter 11 at some point over the next 12-36 months given industry headwinds. In such a scenario, these retailers would likely shed anywhere from 30-70% of their store base to focus on profitable locations in a reorganization, or could even liquidate the

1 The FTSE EPRA/NAREIT Developed Real Estate Index was developed by the European Public Real Estate Association (EPRA), a common interest group aiming to promote, develop and represent the European public real estate sector, and the North American Association of Real Estate Investment Trusts (NAREIT), the representative voice of the US REIT industry. The index series is designed to reflect the stock performance of companies engaged in specific aspects of the North American, European and Asian Real Estate markets. The Index is capitalization-weighted.

2 **Please see Appendix for performance table and information.**

3 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.

business entirely through Chapter 7. In either scenario, “co-tenancy” clauses that are built into the leases at most shopping centers would be triggered at the time an anchor closes. This would allow the in-line retailers at those locations (who pay the vast majority of rental income) to renegotiate leases or even exit the properties entirely. As this unfolds, lower quality properties are likely to close and be repurposed, thus reducing the overall levels of retail supply.

- **Increased Demand for Flagship Centers** It is important to note, though, that more than 90% of retail sales in the US are still generated through the traditional bricks and mortar channels. As less productive centers close, shoppers are migrating to more desirable properties in the marketplace thus boosting sales at higher-quality centers. Further, should the owners of those centers have the opportunity to take back less productive department store space (that pay de minimis levels of rent), they will have the ability to repurpose the properties and add more desirable offerings such as dining, entertainment, and other fast-fashion concepts. This will not only further establish the centers' “moat” within the trade area, but allow the property owner to earn attractive returns on the incremental capital in the process.

- **Non-Traditional Retail is on the Rise** While retailers closing stores garner most of the attention in the press, it seems to go overlooked that a vast amount of non-traditional tenants are expanding in top properties. Successful restaurant, entertainment, grocery, and furniture concepts such as Legoland, Dave & Buster's, Eataly, and Restoration Hardware (just to name a few) are expanding into high-foot traffic locations. In addition, a number of retail concepts that started without physical locations (i.e., “e-tailers”) have been even more successful after establishing a bricks and mortar presence in key markets (e.g., Warby Parker, Bonobos, Casper, Tesla, Shinola, etc.). Expect more to follow. In fact, Amazon itself is opening up locations at a number of market dominant malls and street retail locations in major urban centers such as New York City, Seattle, and San Francisco and will likely continue to expand its retail footprint over the medium-term.

- **Shifting Economics for Key Locations** As this transition plays out, market dominant centers and well-located street retail in key urban markets are likely to command higher rents. Historically, retail rents have been set as a percentage of tenant sales at the centers. For example, rents are usually around 15% of sales at a class-A mall, so a center that generates sales of $1,000 per square foot would command rents of $150 per square foot. As retail shifts to an “omni-channel” model, it seems likely that these rents (also known as occupancy costs) could increase to nearly 20% as retailers will not only be paying rent for the sales at these key centers but also a premium to be in the “must have” locations in order to showcase their products, handle returns and exchanges, and support the e-commerce efforts for those retailers in the broader marketplace.

With this evolution of retail real estate playing out in real time, the Third Avenue Real Estate Value Fund will continue to avoid commodity-like shopping centers and concentrate its retail investments in “destination retail” that will serve as the primary point of contact for retailers and customers in an “omni-channel” environment (currently 18% of the Fund). Along these lines, Fund Management took advantage of the weakness in the retail space to increase the Fund's positions in the Common stock of Westfield Corp. and Macerich Co., as well as initiated a position in the Senior Secured Bank Debt of Neiman Marcus Group.

Westfield Corporation (“Westfield”) is a very well-capitalized real estate operating company (“REOC”) based in Australia that owns market dominant shopping centers in the United States and the United Kingdom. The company currently controls one of the most productive retail portfolios globally as the centers are 95% leased and collectively generate sales of nearly $900 per square foot. Key centers include irreplaceable assets such as Westfield Stratford in London, Westfield World Trade and Garden State Plaza in the New York area, and Westfield San Francisco and Century City in Los Angeles.

Recognizing the shift to destination centers nearly five years ago, the Lowy family (who has run the company since 1960 and owns more than $1 billion of common stock) elected to sell off the vast majority of the company's less-productive properties (nearly $7 billion of centers) and has reinvested the capital into its marquee assets. This transition was “dilutive” from a near-term earnings perspective but will add a tremendous amount of value, or Net Asset Value (NAV), for long-term holders. This value creation should start to shine through over the next few years as the company's $4 billion pipeline reaches completion with key redevelopments and extensions at Westfield London, Century City, Westfield World Trade, Westfield UTC, and Westfield Valley Fair coming on-line. In the meantime, the company is exploring additional avenues to enhance value including adding residential components at certain urban locations, repurposing less productive department store boxes with more profitable concepts as outlined above, and potentially selling stakes in its flagship assets at prices that far exceed what is currently implied in the public markets.

Macerich Company (“Macerich”) is a US-based Real Estate Investment Trust (“REIT”) that owns the third most valuable mall portfolio in North America with some of the most dominant centers in the US including Queen's Center in New York City, Tyson's Corner in Washington, D.C., Fashion

Square in Phoenix, Washington Square in Portland, and Santa Monica Place in Los Angeles. In addition, the company has been expanding into premium outlet centers in urban markets having already opened the Fashion Outlets in Chicago with additional projects underway in downtown Philadelphia and at the former site of Candlestick Park in San Francisco. Similar to Westfield, Macerich undertook an effort to divest non-core assets early on and now has nearly 90% of its portfolio concentrated in class-A properties (those centers that generate more than $500 of sales per square foot).

With such a productive portfolio in key US markets, US shopping center giant Simon Property Group ("Simon") made an unsolicited bid to buy Macerich in 2015 for $95 per share but was ultimately rebuffed by the Board. After the deal was rejected, Macerich's stock price dropped materially and the Fund initiated a position. It was our view at the time that Macerich would need to execute on its business plan of boosting margins, selling assets at private market values, and repurchasing shares at lower prices in order to close the discount at which its shares traded to NAV and the Simon bid.

In the summer of 2016, Macerich Common approached the $95 per share figure that Simon had offered (once adjusting for special dividends) and the Fund began to reduce its exposure accordingly. However, with the shares trading off sharply since that time and currently lingering below $65 per share (where it sat before Simon first approached the company), the Fund has started to increase the position once again as it is our belief that Macerich might once again be under pressure to close the discount.

Neiman Marcus Group ("Neiman") is a US based department store retailer that operates through three key segments including: (i) 42 high-end department stores, (ii) two Bergdorf Goodman luxury department stores in New York City, and (iii) 42 premium outlet stores under the Last Call brand. Neiman also has a large on-line and catalog business, which accounts for nearly 30% of the company's revenues.

Last year was a difficult one for the company. Not only is Neiman facing the same headwinds as other department store operators (although to a lesser extent of Sears and J.C. Penney given a more exclusive product offering and interactive shopping experience), but the company faced setbacks with a weak energy market impacting its Texas stores and a strong dollar stifling tourism spending at its New York City locations (collectively 30% of revenues). In addition, the company rolled out a new inventory management system that debuted with serious complications, leaving Neiman unable to fulfill orders and replenish inventories. As a result of these issues, the company's sales declined by more than 7% during the year, its cash flows were nearly 25% lower than the previous year, and the company's credit rating was downgraded, leading to forced selling in Neiman's Bank Debt and Unsecured Bonds.

Having followed the situation for a few years, the Fund stepped in and initiated a position in Neiman's Senior Secured Bank Debt at a material discount to par value. It is our view that the company will have the ability to stabilize its business and refinance its capital structure, leaving this facility as a performing credit. If not, the market value of the Bank Debt would be fully supported by the value of the company's inventory and real estate in the event of reorganization. In fact, one could make the case that Neiman controls one of the highest quality real estate portfolios on a "pound-for-pound" basis (through outright ownership or long-term leases), with large boxes at some of the most productive malls in the country including Ala Moana in Honolulu, Bal Harbour in Miami, Lenox Square in Atlanta, and many others.

After the Fund initiated its position, Neiman announced that it was exploring strategic alternatives to address its capital structure and it was reported that Hudson's Bay (the owner of Saks Fifth Avenue and Lord & Taylor) had interest in buying the company. While a deal is not guaranteed to occur, a transaction whereby the company were to divest its Bergdorf Goodman subsidiary, reduce debt, and combine the remaining operations with Hudson's Bay would materially enhance the company's credit profile and prospects going forward.

Outside of these investments, the Fund's other activity primarily included reducing its exposure to real estate related businesses such as PNC Financial Services Group and Zions Bancorporation. The proceeds of these sales were mostly reallocated to capital raises at Segro plc ("Segro") and Trinity Place Holdings ("Trinity").

Segro is a UK-based REIT that owns one of the leading industrial real estate platforms in Europe, with a particular stronghold in London. During the quarter, Segro raised approximately £550 million through a rights offering in order to repurchase its partner's stake in a portfolio of assets adjacent to Heathrow Airport in London. With plans to add a third runway at Heathrow advancing, thus increasing the amount of cargo and goods traveling through the estate, it seems likely that these properties could become even more valuable over the long-term.

Trinity is a US-based real estate operating company that was formed to put the assets of its predecessor company, Syms Corp., to a higher and better use. The company recently completed raising nearly $40 million of funds which will be used by Trinity as it moves ahead with its 300,000 square foot development project in downtown Manhattan (77 Greenwich) and to make opportunistic acquisitions in value-add multifamily properties in the five boroughs of New York City.

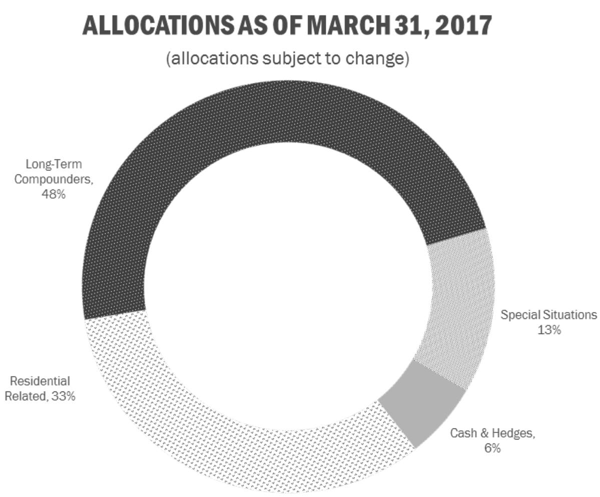
POSITIONING & OUTLOOK

At the end of the quarter, the Fund had approximately 48% of its capital invested in property companies that are involved in long-term wealth creation.

These holdings primarily include: Land Securities, Cheung Kong Property, Forest City Realty Trust, Westfield Corp., Brookfield Asset Management, Vornado Realty Trust, Wheelock & Co., and Henderson Land. Each of these enterprises is incredibly well-capitalized, trades at a discount to NAV, and seems capable of increasing NAV by 10% or more per year (including dividends) through further appreciation in the value of the underlying assets, as well as by undertaking additional development and redevelopment activities and by making opportunistic acquisitions.

The Fund also has 33% of its capital invested in real estate related businesses that have strong ties to the US residential markets, such as timberlands (Weyerhaeuser & Rayonier), land development (Five Point Holdings and Tejon Ranch), homebuilding (Lennar Corp), and home improvement (Lowe's). All of these businesses seem poised to benefit from a further recovery in housing fundamentals particularly from an increase in the construction of single-family homes in the US.

An additional 13% of the Fund's capital is invested in special situations such as Colonial in Spain and Parkway Properties and Neiman Marcus in the US. The remaining 6% of the Fund's capital is in cash and equivalents as the Fund remains nearly fully-invested, given the discounts at which the securities trade relative to Fund Management's conservative estimates of NAV. The Fund also continues to maintain its hedges on the Euro and Hong Kong Dollar exposure.



As we enter the second quarter of 2017, there are developments at three of the Fund's top ten holdings which could have a meaningful impact on the positions in the near-term. One, the Fund's largest investment in Asia, Global Logistic Properties (a Singapore-based REOC that owns leading industrial real estate platforms in China, Japan, and the US) is in the final stages of its strategic alternative process that could result in a sale of the business. Two, Forest City Realty Trust (a US-based REIT with a diversified portfolio of properties and strategic mixed-use projects in key US markets) is set to collapse its dual-class share structure and simplify its business by completing the divestiture of its retail portfolio in an effort to close the material discount to NAV which is almost unprecedented for a US REIT. And finally, Five Point Holdings (a US-based REOC that controls large-scale master planned communities in coastal California including Great Park in Orange County, Newhall Ranch in Los Angeles, and the Shipyards in San Francisco) has filed an S-11, signaling its intentions to pursue an Initial Public Offering ("IPO") which could surface value for the Fund's investment and provide the company with the capital necessary to accelerate development activity at its strategic projects in California where well-located residential housing remains scarce.

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

Sincerely,

The Third Avenue Real Estate Value Team

Michael Winer Lead Portfolio Manager	Jason Wolf Lead Portfolio Manager	Ryan Dobratz Lead Portfolio Manager

THIRD AVENUE REAL ESTATE VALUE FUND

APPENDIX

INSTITUTIONAL: TAREX | INVESTOR: TVRVX

March 31, 2017

FUND PERFORMANCE

as of 3/31/17	1 yr	3 yr	5 yr	10 yr	Since Inception	Inception Date
TAREX (Institutional)	14.94%	5.68%	10.87%	3.33%	10.95%	9/17/1998
TVRVX (Investor)	14.65%	5.41%	10.59%	(n/a)	10.09%	12/31/2009

TOP TEN HOLDINGS

	% of Portfolio
Lennar Corp.	5.8
Weyerhaeuser Co.	5.6
Land Securities Group PLC	5.4
Global Logistic Properties, Ltd.	5.2
Rayonier, Inc.	5.0
Cheung Kong Property Holdings, Ltd.	4.9
Forest City Realty Trust, Inc., Class A	4.9
FivePoint Holdings LLC	4.5
Wheelock & Co. Ltd.	4.4
Westfield Corp.	4.2

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 and investor share classes is 1.13% and 1.38%, respectively, as of March 1, 2017. 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.

IMPORTANT INFORMATION

Date of first use of portfolio manager commentary: April 19, 2017

THIRD AVENUE MANAGEMENT

www.thirdave.com

/third-ave-management

Third Avenue offers multiple investment solutions with unique exposures and return profiles. Our core strategies are currently available through '40Act mutual funds and customized accounts. If you would like further information, please contact a Relationship Manager at:

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