

June 30, 2017

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Dear Fellow Shareholders:

Does Thematic Investing Have A Place In Value Investing?

One of the questions we are frequently asked by our clients is how do we see our sector positioning in the markets. Our answer at Third Avenue has always been that we are fundamental bottom up investors and sector agnostic as to where our ideas originate. We look to invest in securities of companies that meet the Third Avenue philosophy of creditworthiness, compounding book value growth and significant price undervaluation. We don't think the sector index weightings in the indices in any way represent either portfolio construction or risk control guidelines as to how we should invest our fund. The Third Avenue Value Fund has always been an opportunistic and eclectic collection of well-researched investments constructed with the aim of superior long term returns matched with a “balance sheet first” focus on risk control.

However, we do hold long term high conviction beliefs on some sub-sectors of the economy, and as a result, we have high concentration positioning in groups of companies that we believe will collectively outperform over the long term. But, just as we will not invest in companies or industries that we do not find attractive along the Third Avenue philosophy of creditworthiness, compounding book value growth and significant price undervaluation, we will hold concentrated weightings in sectors where we see favorable investment dynamics over the next three to five years.

One of the areas of greatest concentration for the Fund over the past three years has been in banks, namely Comerica (CMA), PNC Bank (PNC), Keycorp (KEY) and the trust and processing company, Bank of New York Mellon (BK). Our collective weighting in these four positions on June 30th was approximately 18%. These four banks added 118 basis points of positive attribution to the Fund in the second quarter. Post the worst of the financial crisis and post the institution of programs by the US government to strengthen the financial sector (e.g., Troubled Asset Relief Program or TARP), market sentiment on the banks was very low despite the fact that banks’ balance sheets had been bolstered. They had charged off problem loans and addressed any balance sheet concerns (TARP and equity) -- and thus the companies were set up to generate cost saves, build capital, generate loan growth and had asset sensitivity to interest rate hikes.

Under the new post crisis financial regulatory regime, these banks indeed built significant excess capital, far beyond their needs to reserve for tepid loan growth, which in our opinion left them dramatically ‘under-earning’ a normal economic recovery pace. While the profit acceleration of these banks

took longer to develop than we initially foresaw, we believe their excess capital position protected our downside risk, effectively allowing us to ‘risk time and not capital’ over our holding period. In fact, we continued to add to our positions on stock market weakness. The late June 2017 results of the Federal Reserve’s capital plan reviews of all these banks allowed a significant step up in share buybacks and dividend increases year-over-year to a level that was higher than still skeptical market expectations.

Ticker	Buyback (\$ mm)			Quarterly Dividends Per Share 3Q17 (\$)		
	2017 approved	2017 expected ¹	2016	2017 new expectation	2017 prior ²	3Q16
BK	3,100	2,750	2,700	0.24	0.22	0.19
CMA	605	440	600	0.30	0.26	0.23
KEY	800	800	350	0.105	0.095	0.085
PNC	2,700 ³	2,900	2,300	0.75	0.59	0.55

¹ TAM review of sell side expectations
² Bloomberg Estimates
³ Plus an additional \$500 million on the issue of preferred shares

Beyond the next twelve months’ accelerated share buyback schedule, we see loan growth maturing with the economic cycle, moving away from Commercial Real Estate and growing in areas like consumer mortgage and business lending. Rates paid for deposits remain stubbornly low from a depositor perspective, but are providing an increasing spread for these banks as the Federal Reserve has raised its benchmark lending rate 4 times for 100 basis points off ‘generational lows.’

While this overarching financial theme does apply to many banks, our specific investment thesis on the Fund’s portfolio positions are individually fundamental with strong self-help and potential resource conversion attributes. Comerica is engaged in a significant cost reduction effort termed GEAR-Up, that is targeted to drive down its efficiency ratio and increase earnings even in a flat interest rate environment. PNC Bank, too, is engaged in continuing cost reduction through technology implementation and branch consolidation, while it also has the ‘hidden asset’ of its 21.29% ownership of Blackrock Corp., where the market value of \$14.3 billion of this stake is approximately \$15.30 per share over the valuation represented in PNC’s March 31, 2017 Book Value of \$86.14 and Tangible Book Value of \$67.47. Likewise, CEO Beth Mooney of Keycorp in early June indicated the acquisition of First Niagara has been a tremendous success from a cost reduction and geographic expansion perspective, and that while Keycorp will remain vigilant on costs, it is now looking to resume both its organic

and M&A driven growth strategies. Finally, Bank of New York Mellon is dramatically reducing costs, which include rapid adoption of “Block Chain” and “Artificial Intelligence” software modules, that should also improve customer service. While these have driven strong returns for the Value Fund, we believe all four companies remain well positioned to drive market leading book value growth over the next three to five years.

Another significant industry weight for the Fund is in the US housing sector, as we have high conviction that the housing market will continue to recover from over a decade of new home ‘starts’ below a sustainable trend line of roughly 1.2-1.4 million units annually. Our housing sector exposure is comprised of Lennar (LEN), Cavco (CVCO), Weyerhaeuser (WY), Masco (MAS), and Canfor (CFP). They represented a combined 15.13% weighting for the Fund on June 30th, 2017 and returned 101 basis points for the second quarter 2017. Our thesis again starts with the Balance Sheets of our owned positions, which are all strong and indeed improving as building activity continues to recover. Housing starts and building permits are continuing their long-term trend of improvement, which should continue as job and wage growth continues broadly as well. Lumber and building product prices have improved with stronger activity, favoring Weyerhaeuser and Canfor, while Cavco, Masco and Lennar have been very successful in passing along higher prices while still driving margin improvement. For the sector as a whole, and more importantly for our portfolio investments, we see these factors continuing and even strengthening over the next few years.

Of course, each of these investments has specific fundamental positives that are more important to our ownership criteria than homebuilding exposure. Lennar continues to de-lever its balance sheet through monetizing its long term land position, and in the second quarter the company completed an important step to show its sum-of-the parts undervaluation with the successful Initial Public Offering of its Five Point Holdings unit. Cavco maintains a strong net cash position of \$15.19 per share, and in the quarter acquired Lexington Homes Inc., synergistically expanding its market presence to Mississippi, Louisiana and Alabama. Masco continues to drive strong revenue growth, even against the negative impact of walking away from low margin cabinet sales. Strong sales leverage and the dramatic impact from internal restructuring initiatives has helped Masco post improved margins and raise its long term earnings forecasts. Canfor and Weyerhaeuser both continue to benefit from higher lumber prices, as trade duties on Canadian Lumber by the U.S. have driven up prices, which greatly benefit the U.S. manufacturing units of both companies. Weyerhaeuser specifically has unique resource conversion opportunities to monetize its ‘higher and better use lands’, as well as potentially separating out its building products division into a separate company.

We have also written about our “Bull Pen” list of well researched and fundamentally attractive companies that we

continue to monitor for a potential opportunity to invest if an appropriate discount to our price target materializes. The Healthcare sector is an area where we have added several new positions over the last two years, including Cerner (CERN), Amgen (AMGN), and Baxalta (which was subsequently acquired by Shire PLC). Along with these positions, we are monitoring several related companies on our “Bull Pen” list as we see the growth in Health Care, which now represents almost one-fifth of all U.S. GDP spending, continuing for the long term.

One new area that we are intrigued with is the rapid emergence of Artificial Intelligence into the economy and the truly revolutionary opportunities its application can have on lowered costs and improved customer service. From our perspective it is a diverse theme that will express itself across all industries, with wide ranging examples from autonomous driving, to improved healthcare diagnostics and patient specific treatments, to phone systems which will have the potential to respond to conversational requests providing an end to frustrating hold times for airlines, banking, cable TV, etc. In our view, this technology will become ubiquitous for all industries, like the internet itself, providing attractive opportunities that are overlooked and outside the large cap technology sector. As we mentioned earlier, Bank of New York has been an early adopter of this technology, i.e. in systems that can recognize simple trade errors like incomplete address or name information and fix them automatically, avoiding human intervention. Almost every company we own should to some extent be able to lower costs and improve service with this embryonic technology. We will continue to search for those that can be disproportionate winners and for which we can invest at attractive prices.

PERFORMANCE

For the second calendar quarter of 2017, the Third Avenue Value Fund returned 3.30% compared to the MSCI World Index at 4.21%.¹ The Fund remains concentrated with 35 positions.

Top performers in the quarter were: Investor AB (INVEB), Bank of New York Mellon (BK) and LivaNova (LIVN). Investor AB, a Swedish holding company, continues to compound value. Its reported NAV, including dividends, increased by 10% during the quarter. The company is now providing estimated market values for its wholly-owned subsidiaries, which include medical device company Mölnlycke, and partner-owned investments within Patricia Industries. We welcome the increased transparency and the resultant closing of the discount in the stock price vs. NAV. Bank of New York Mellon continued to execute on revenue growth in both asset servicing and asset management fees along with good expense control.

LivaNova, a medical devices company, continued to focus on operational improvements and announced the acquisition of Caisson Intervention to expand its heart valve portfolio.

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. Please see Appendix for performance table and information

The top detractor was Devon Energy (DVN), which declined along with the broader energy group as oil prices declined during the quarter. Other detractors were Avnet (AVT), which is continuing on its path to transforming itself though announced further Enterprise Resource Planning (ERP) system transition costs, and Ralph Lauren (RL), which was negatively impacted by the tough environment in retail, while continuing on its 'Way Forward' restructuring program. Despite the near term hiccups, we continue to believe that the longer term prospects for growth for each of these companies remain strong.

NEW POSITION: RELIANCE STEEL & ALUMINUM (RS)

Founded in the late 1930s, Reliance Steel & Aluminum ("Reliance") has grown to become the largest metals service center in North America. Given the name of the company, one could be forgiven for thinking the company produces steel and aluminum. In actuality, as an operator of service centers, Reliance's business is providing essential value-added services and distribution for these metals, as well as brass, copper, titanium and other alloys, with more than 100,000 products offered. A few examples of the value-added services Reliance provides are slitting, laser cutting and electropolishing. The company operates a network of more than 300 locations across almost 40 states in the U.S. and a dozen countries.

Reliance has been on our radar for years during which time we've had the chance to meet with management and tour its operations. After a decline in its stock price this year, we took advantage of the opportunity to initiate an investment with a belief that the company is very well-positioned to continue its profitable growth, both organically and inorganically. As the domestic and global economy grows over the long term, the need for metal products is ever-increasing, and Reliance has carved out a defendable niche for itself serving this demand. Specifically, Reliance focuses on smaller customers with relatively small orders that need the company's high-quality products quickly (40% of orders are delivered the next day). Taken together, this affords Reliance sticky customer relationships (97% repeat business) with superior margins and pricing, regardless of underlying metal prices. As Reliance's share of its market is still only in the single-digits, the company should continue growing both with the industry and also through ongoing share gains. Reliance has been able to steadily capture market share over its history given the breadth of its products and services, its buying power and operational efficiency, and the exceptional quality of its products and customer service. Another notable competitive advantage is Reliance's strong balance sheet, with net debt of approximately 30% of capital, 2.2x EBITDA, and strong cash flows for deleveraging. In an industry with a number of poorly capitalized peers, Reliance's financial position has given rise to lasting partnerships with its suppliers and customers and is tied to the quality of its products as it has allowed Reliance the ability to make industry-leading investments in state-of-the-art equipment.

The balance sheet is also a reflection of the high quality of Reliance's management team. In addition to being judicious financiers, the long-tenured team has proven to be exceptional operators and capital allocators, having completed more than 60 acquisitions since taking the company public in 1994. This has brought about the Reliance "Family of Companies," as management insists on acquisition targets with strong leadership teams and brands that it can keep in place. Reliance is now becoming the recognized acquirer of choice in the industry and this has helped management deliver an outstanding long-term track record, with the company's retained earnings and dividends compounding at 12%, 16%, and 20% per share over the last 5, 10 and 15 years, respectively. Given the still very fragmented nature of the industry, we expect resource conversion will remain a persistent source of value creation for management over the longer term.

We were able to purchase Reliance common stock at a discount of roughly 30% to our estimate of NAV. Over the medium term we see the improving economy and renewed push for investments in infrastructure within the US as potentially offering a tailwind to demand for Reliance's products and services. Over the long term as Reliance continues growing, we expect ongoing compounding in the value of the company and a closing of the discount to our NAV estimate.

CONCLUSION

As we wrote last quarter, despite the broader market indices touching new highs over the second quarter, our front-end idea generation process is strong, as highlighted in our Small Cap commentary this quarter. We continue to work on many more names than we will ever own, and have a robust "Bull Pen" list of attractive investment ideas that we will move quickly on, or "Carpe Diem" if share price movements give us the patient buying opportunity. Indeed, the Reliance Steel purchase this quarter is an example of a company on our Bull Pen list that we have monitored for several quarters.

In closing, we thank you for your trust and support and look forward to writing to you next quarter.

Sincerely,

The Third Avenue Value Team



Chip Rewey
Lead Portfolio Manager



Yang Lie
Portfolio Manager

IMPORTANT INFORMATION

This publication does not constitute an offer or solicitation of any transaction in any securities. Any recommendation contained herein may not be suitable for all investors. Information contained in this publication has been obtained from sources we believe to be reliable, but cannot be guaranteed.

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Date of first use of portfolio manager commentary: July 17, 2017

THIRD AVENUE VALUE FUND

INSTITUTIONAL: TAVFX | INVESTOR: TVFVX

APPENDIX

June 30, 2017

FUND PERFORMANCE

	as 6/30/17	1 yr	3 yr	5 yr	10 yr	Since Inception	Inception Date
TAVFX (Institutional)		21.54%	2.94%	9.87%	2.22 %	11.09%	11/1/1990
TVFVX (Investor)		21.22%	2.67%	9.60%	(n/a)	6.36%	12/31/2009

TOP TEN HOLDINGS

	% of Portfolio
Bank of New York Mellon Corp.	6.6%
Weyerhaeuser Co.	5.7%
Comerica, Inc.	5.2%
PNC Financial Services Group, Inc.	5.0%
Brookfield Asset Management, Inc.	4.4%
CK Hutchison Holdings, Ltd.	4.0%
Alleghany Corp.	3.7%
Total S.A.	3.6%
Investor AB	3.6%
Cavco Industries, Inc.	3.4%

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 1.15% and 1.40% respectively, as of March 1, 2017. 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.

Third Avenue Funds are offered by prospectus only. The prospectus contains important information, including investment objectives, risks, advisory fees and expenses. Please read the prospectus carefully before investing in the Funds. 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 updated information or a copy of our prospectus, please call 1-800-443-1021 or go to our web site at www.thirdave.com. Distributor of Third Avenue Funds: Foreside Fund Services, LLC.

Current performance results may be lower or higher than performance numbers quoted in certain letters to shareholders.

THIRD AVENUE
MANAGEMENT

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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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