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 June 30, 2018. Through the first half of the year, the Fund generated a return of -3.50% (after fees) versus +0.92% (before fees) for the Fund’s most relevant benchmark, the FTSE EPRA NAREIT Developed Index. As close followers of the Fund are well aware, return figures vary over shorter periods of time. In fact, temporary setbacks in certain securities oftentimes present the opportunity to increase the size of select holdings as the price to value proposition becomes more compelling (see Activity below).

In Fund Management’s view, a superior gauge of performance is the Fund’s long-term results where it has earned an annualized return of +10.70% since its inception in 1998. As highlighted in the chart below, this performance indicates an initial investment of $100,000 in the Third Avenue Real Estate Value Fund would have a market value of more than $740,000 as of June 30, 2018 (assuming dividends had been reinvested), or nearly 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.

![Graph showing the value of $100k since inception](image)

**Activity:**
The Third Avenue Real Estate Value Fund has historically enjoyed some key advantages relative to a number of other real estate strategies. A primary differentiator is that the vast majority of the Fund’s investors share our long-term view and value mindset. This has provided a capital base that has remained steadfast amidst the inevitable ups-and-downs of public market investing, allowing Fund Management to allocate capital to areas that are out-of-favor and to patiently wait until conditions (and valuations) improve. Over the course of time, the Fund’s average holding period has been nearly five years, a time horizon that few others often take. Another important aspect of the Fund has been its ability to invest in less-trafficked areas of the real estate space. In fact, some of the largest sources of returns over the Fund’s nearly two-decade history have been from investments in property companies that fall outside of most mandates, including “real estate rich” retailers.

In several cases, the Fund has utilized its flexible mandate to capitalize on opportunities in the debt securities of stressed retailers where it can buy in at prices that (i) represent a significant discount to the underlying real estate value of the entity and (ii) provide equity like returns should the instrument be held to maturity (or event). Two examples have included the Fund purchasing the unsecured debt of J.C. Penney (a U.S. based department store operator) as well as the unsecured bonds of Winn-Dixie (a U.S. based grocery store business).

While those investments have contributed to performance, some even more profitable positions for the Fund have included the common stock of well-capitalized entities that control valuable retail locations with a plan to put those properties to a higher-and-better use. Some of the Fund’s biggest “winners” over the years have included investments in the common stock of K-Mart, Inc. (a U.S. based discount retailer) as it emerged from bankruptcy, as well as in Lowe’s Inc. (a U.S. based home improvement retailer) as it recovered from the financial crisis. Trinity Place Holdings (the successor company to the department store business of Syms and Filene’s Basement) and Seritage Growth Properties (an entity that controls nearly 250 stores previously owned by Sears Holdings Corp) are two others that have contributed to performance, but both remain in the early stages of unlocking the value embedded in their assets.

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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.

*Please see Appendix for performance table and information.*
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.
Recognizing that there is often a much more compelling opportunity in owning the equity of a well-capitalized entity looking to extract value from its real estate holdings, the Fund exited its position in the senior secured debt of Neiman Marcus LLC (a U.S. based department store operator) during the quarter at a profit. The proceeds were primarily used to establish a position in the unsecured term loan of Toys "R" Us Property Company I, LLC ("Prop Co I"), a subsidiary within the broader Toys "R" Us organization that houses a large portion of the company’s U.S.-based real estate assets.

Toys "R" Us is a U.S.-based specialty retailer that generated more than $11 billion of sales globally through its nearly 2,000 store network of Toys "R" Us and Babies "R" Us locations as recently as 2017. Fund Management has tracked the company for more than a decade as the retailer owned and controlled a number of valuable retail locations. For that reason, considerable resources were spent analyzing the company and its capital structure after the retailer filed for bankruptcy protection in late 2017. After the filing, Toys "R" Us creditors proposed a restructuring plan in early 2018 whereby it would (i) sell off or wind-down its international subsidiaries, (ii) liquidate its U.S. based retail business, and (iii) monetize its existing investments including real estate and intellectual property. The Fund subsequently initiated a position in the Prop Co I Loan at a discount to par value.

In Fund Management's view, the Prop Co I Term Loan (which now has a first pledge on the assets of four Toys "R" Us subsidiaries that control more than 260 retail locations in the U.S. that previously collected $180 million of net rental income annually prior to the retail operations being closed down) could be paid off at par value before year-end to the extent an auction process generates bids at prices in-line with the debt outstanding ($860 million). If not, the Prop Co I Unsecured Creditors are likely to convert their claims into an ownership-like position in the entity, which also holds $150 million of cash and other valuable distribution facilities.

Should the restructuring take place, Prop Co I lenders (including the Fund) would be invested in what is likely to be a well-capitalized entity at an attractive basis (approximately $60 per square foot for the owned stores). Further, the new control group would likely retain a dedicated management team (or third party team that would co-invest in the entity) to realize value by putting the stores to a higher-and-better use. These efforts would mostly include (i) releasing the space to expanding off-price retailers and discount grocery concepts, (ii) sub-dividing the space and re-leasing to small shop retailers, or (iii) selling the locations to the adjacent shopping centers owners who in certain cases are the more natural owners of the boxes. Similar to other reorganizations, the Fund may have an opportunity to add capital as the business plan formalizes, but will remain price conscious as these situations oftentimes take years to play out.

Other key investments during the quarter included the Fund adding to its positions in the common stock of Five Point Holdings and Lennar Corp., both of which have been detractors year-to-date, but in Fund Management’s view are likely to be amongst the most significant contributors in the years ahead.

Five Point Holdings ("Five Point") is a U.S.-based real estate operating company that is the largest developer of master planned communities in coastal California. The company currently has plans to build approximately 40,000 home sites and more than 20 million square feet of commercial space in some of the most supply-constrained markets in North America. Five Point’s three primary projects include: (1) Newhall Ranch in Los Angeles County, (2) The Shipyards in San Francisco, and (3) The Great Park Neighborhoods in Orange County. The company also has plans to further strengthen these communities alongside the developments by adding 15,000 acres of public parks and accessible space, 10 new primary and secondary schools, and approximately 6,000 affordable residential units.

While the long-term value creation opportunity for Five Point is substantial, the company’s common stock was under pressure during the quarter. Insofar as Fund Management can tell, there are currently three short-term issues confronting investors. One, certain legacy investors and participants in the company’s 2017 IPO are now eligible to sell the shares; at the same time, Five Point is still in the process of introducing disclosures including key performance indicators that are necessary to attract interest from generalist investors. Two, the “cash-burn” at the company (e.g., expenses exceeding revenues) appears elevated as two of the company’s projects (Newhall Ranch and The Shipyards) are not currently selling residential lots or commercial land. Three, the US Navy is currently undertaking additional testing on certain parcels of the Hunter’s Point portion of the Shipyards development (those parcels were formerly owned by the Navy, which was responsible for remediating the land and returning it to the city of San Francisco for redevelopment in conjunction with the Base Realignment Act). As a result, the timeline for that portion of the project seems to have been pushed back (although the Candlestick portion has been accelerated).

These issues are not likely to be resolved by year-end. However, when looking out to 2019, it is not inconceivable that Five Point will have vastly improved disclosures (in-line with industry peers), gained more clarity around the timing of the Shipyards project, as well as realize additional revenues (and price discovery) at Newhall Ranch with lots expected to be delivered in the latter part of the year. The combination of these factors could serve to vastly improve the valuation for the company, which currently implies a value of less than $20,000 per residential lot. In the meantime, the company remains very well-capitalized (i.e., cash exceeds debt) and the management team continues to increase the underlying value of the business. For instance, during the quarter there was an additional
2 million square feet of commercial entitlements granted at the Hunters Point site, thus bringing the total to nearly 4 million square feet and creating an opportunity for a strategically located corporate campus.

**Lennar Corp.** ("Lennar") is a U.S.-based homebuilder that focuses on building homes for first-time and first-time move-up buyers. The company primarily focuses on markets in the mid-Atlantic, Southeast, Texas, and the West Coast. Following the acquisition of Cal-Atlantic earlier this year, Lennar is now the largest builder in the U.S. and the number-one market player in 15 of the top 30 metropolitan areas. This unrivaled scale puts them on pace to sell more than 40,000 homes this year, which would account for 7% of new home sales nationally. In addition to its homebuilding operations, Lennar also holds strategic investments through certain ancillary businesses including (i) Five Point Holdings, where it owns a 40% stake (ii) Rialto Management, a wholly-owned commercial real estate investment and management business and (iii) Lennar Multifamily, a wholly-owned multi-family development platform.

Irrespective of solid fundamentals, Lennar common stock has not performed well this year. Similar to most homebuilders, the company’s stock price has been under pressure as concerns mount regarding higher mortgage rates potentially limiting increases in average selling prices alongside rising input costs (e.g., land, labor, and lumber). Further, in recent years Lennar had guided that it was moving to a "land light" model (whereby it would reduce the amount of capital it had tied up in non-income producing land, thus boosting the returns from its homebuilding business) but then nearly doubled its land position through its Cal-Atlantic acquisition catching most stakeholders off-guard.

Fund Management recognizes these concerns. Notwithstanding, it continues to be our view that there is a housing deficit in most major U.S. markets (record low levels of housing inventory and multi-family vacancy rates), at the same time that unemployment rates remain low and wage gains are accelerating, which seems likely to support demand. Further, the scale that Lennar achieved through its recent acquisition has allowed it to realize operating efficiencies that were frankly not attainable before, serving to boost operating margins to record high levels of 14% following the integration of Cal-Atlantic.

With insiders at Lennar owning more than 10% of the shares outstanding, the control group seems highly motivated to surface value with the common stock trading at such a significant discount to its Net Asset Value ("NAV"). Therefore, over the next 12-24 months, the company could pursue a path whereby it would (i) divest certain ancillary businesses (e.g., Rialto), (ii) repurchase shares, and (iii) undertake a more transformative deal to create a separately held land venture. Should this occur and lead to Lennar being valued in-line with other "land light" builders (e.g., NVR, Inc.), management’s efforts would be quite rewarding. Lennar has the potential to earn $6 per share in its homebuilding business in 2019 (implying a value of $90 per share at NVR’s 15 times earnings multiple). Moreover, these actions may finally highlight value for its ancillary businesses that earnings based investors mostly ignore given the lack of reported profits (another $10-12 per share of NAV by Fund Management’s estimates). This would not only benefit the Fund’s long-standing investment in Lennar Common but also its recently acquired position in Lennar B shares (which the Fund purchased during the quarter given the 20% discount at which the B shares trade relative to the Lennar A shares despite equal economics).

Other activity during the quarter included the Fund reducing its position in the common stock of U.S. Timber REIT Rayonier, Inc., as well as completing the sale of its position in the common stock of Australian-based Westfield Group prior to it being acquired by European-based Unibail-Rodamco. The proceeds from these sales were mostly allocated to increasing the Fund’s positions in the Common stock of Macerich Co. (a U.S. mall REIT) and Hammerson plc (a U.K. mall REIT), both of which control highly sought-after Class-A mall portfolios in their respective markets and have common stocks that trade at 25% plus discounts to take-over offers received from strategic (and credible) buyers in recent years.

**Fund Positioning:**

After accounting for the most recent activity, the Fund ended the quarter with approximately 44% of its capital invested in property companies that are involved in long-term wealth creation. These holdings primarily include: CK Asset Holdings, Brookfield Asset Management, Land Securities, Forest City Realty Trust, Vornado Realty Trust, Capital and Counties, Wheelock & Co., and Henderson Land. Each of these enterprises is very well-capitalized, trades at a discount to our estimate of 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 U.S. residential markets, such as timberlands (Weyerhaeuser & Rayonier), land development (Five Point and Tejon Ranch), homebuilding (Lennar Corp), title insurance (FNF Group), moving and storage (Amerco), 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 and higher levels of residential purchase activity in the U.S.

An additional 15% of the Fund’s capital is invested in special situations such as Millennium & Copthorne in the U.K., Trinity Place Holdings and Macerich in the U.S.,
Wharf Holdings in Hong Kong, and the Term Loan of Toys "R" Us Prop Co. I in the U.S.

The remaining 8% of the Fund’s capital is in cash & equivalents (e.g., short-term U.S. Treasuries). The Fund also maintains certain hedges, most notably relating to its exposure to the Hong Kong Dollar.

![Allocations Chart]

**Fund Commentary:**

During the quarter, members of the Third Avenue investment team attended the Berkshire Hathaway shareholders meeting in Omaha, Nebraska. At this year’s event, there was a disproportionate amount of time dedicated to investment opportunities in Asia relative to past years. In fact, Berkshire Hathaway Vice Chairman Charlie Munger remarked that “American investors are mistakenly missing China” and declared Asia “a better hunting ground than the U.S. right now”. Later Munger revealed in an interview that he has personally been invested in China for the past 14 years.

Fund Management shares the view that there are substantial opportunities in Asia and has also dedicated a significant amount of the Fund’s capital to the region for the past 14 years. While not invested in businesses that are listed in mainland China, the bulk of the Fund’s investments in Asia have been through the common stock of Hong Kong based real estate operating companies and holding companies.

In our view, Hong Kong listed securities have a number of key advantages for outside passive minority investors ("OPMI’s") like the Fund. Namely, issuers listed on the Hong Kong Stock Exchange provide comprehensive financial statements conforming to local disclosure requirements, as well as provide superior protections for minority shareholders given strict security laws. In addition, there are a select set of companies listed in Hong Kong (and to a lesser extent Singapore) that meet Third Avenue’s well-defined criteria for common stock investing that was shaped by our Firm’s late Founder Marty Whitman. To wit, there are a handful of issuers that are (i) incredibly well-capitalized, (ii) have common stocks that trade at significant discounts to readily ascertainable NAV’s, and (iii) have control groups that are largely aligned with OPMI’s, with business plans in place to compound NAV by 10%, or more, per year, over the course of three to five years.

While the investment thesis for the Fund’s long-time holdings in the region (e.g., CK Asset Holdings, Henderson Land, Wheelock & Co., Sun Hung Kai, and City Developments) has not changed materially over the years, there have been two recognizable shifts relating to these holdings recently.

One, the companies in which the Fund is invested are primarily controlled by founding shareholders who have undertaken initiatives to pass on the day-to-day management of the businesses—as well as the strategic direction—to younger generations alongside other professional managers. This “new guard” seems to have a more global view and be more willing to adopt progressive capital allocation policies, as well as to undertake efforts to streamline the organizations into more focused real estate entities. For instance, Fund holdings’ CK Asset has undertaken a major share repurchase program, Wheelock & Co. has simplified its holding company structure, and Henderson Land has aggressively sold assets at premiums to appraised values.

Two, there has been a material increase in shareholder activism in the region in recent years. In fact, a recent report released by J.P. Morgan noted that more than 50% of the 662 activist campaigns launched during 2017 involved non-U.S. targets and more than 100 were in Asia (a record high). Fund Management does not believe that activist investors are likely to target the Fund’s holdings given their strong track records of value creation and significant levels of insider ownership. However, it does seem likely that increased acceptance of shareholder engagement will lead to more organizations engaging in mergers, acquisitions, and privatizations thus closing the discount at which public companies trade relative to their private market values.

Given this dynamic, the modernization of the capital markets in Asia that Joe Studwell so clearly called for in his book *Asian Godfathers: Money and Power in Hong Kong and Southeast Asia* seems to finally be gaining steam. While likely to take many more years to play out, the movement could unlock a substantial amount of value and with nearly 20% of the Fund’s invested capital in the region (through common stocks that trade at more than 35% discounts to conservative estimates of NAV on average), investors in the Third Avenue Real Estate Value Fund are unlikely to “miss out.”

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

Sincerely,

The Third Avenue Real Estate Team

Jason Wolf, CFA

Ryan Dobratz, CFA
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.

The information in this portfolio manager letter represents the opinions of the portfolio manager(s) and is not intended to be a forecast of future events, a guarantee of future results or investment advice. Views expressed are those of the portfolio manager(s) and may differ from those of other portfolio managers or of the firm as a whole. Also, please note that any discussion of the Fund’s holdings, the Fund’s performance, and the portfolio manager(s) views are as of June 30, 2018 (except as otherwise stated), and are subject to change without notice. Certain information contained in this letter constitutes “forward-looking statements,” which can be identified by the use of forward-looking terminology such as “may,” “will,” “should,” “expect,” “anticipate,” “project,” “estimate,” “intend,” “continue” or “believe,” or the negatives thereof (such as “may not,” “should not,” “are not expected to,” etc.) or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual performance of any fund may differ materially from those reflected or contemplated in any such forward-looking statement. Current performance results may be lower or higher than performance numbers quoted in certain letters to shareholders.

Date of first use of portfolio manager commentary: July 24, 2018
APPENDIX

June 30, 2018

FUND PERFORMANCE

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<th></th>
<th>as of 6/30/18</th>
<th>1 yr</th>
<th>3 yr</th>
<th>5 yr</th>
<th>10 yr</th>
<th>Since Inception</th>
<th>Inception Date</th>
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<tbody>
<tr>
<td>TAREX (Institutional)</td>
<td>6.85%</td>
<td>5.79%</td>
<td>8.35%</td>
<td>7.06%</td>
<td>10.70%</td>
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<td>TVRX (Investor)</td>
<td>6.56%</td>
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<td>12/31/2009</td>
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TOP TEN HOLDINGS

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<th>Holdings</th>
<th>% of Portfolio</th>
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<tbody>
<tr>
<td>Lennar Corp.</td>
<td>6.0%</td>
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<tr>
<td>CK Asset Holdings, Ltd.</td>
<td>5.7%</td>
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<tr>
<td>Forest City Realty Trust, Inc., Class A</td>
<td>5.7%</td>
</tr>
<tr>
<td>Weyerhaeuser Co.</td>
<td>5.7%</td>
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<tr>
<td>Rayonier, Inc.</td>
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<tr>
<td>Brookfield Asset Management, Inc.</td>
<td>4.5%</td>
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<tr>
<td>Macerich Co.</td>
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</tr>
<tr>
<td>Land Securities Group PLC</td>
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</tr>
<tr>
<td>Five Point Holdings, LLC, Class A</td>
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<tr>
<td>Henderson Land Development Co. Ltd.</td>
<td>4.2%</td>
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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.thirдаве.com. The gross expense ratio for the Fund's institutional, investor and z share classes is 1.11%, 1.36% and 1.01%, respectively, as of March 1, 2018. 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.

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 website at www.thirдаве.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 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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