

September 30, 2018

Matthew Fine, CFA | Portfolio Manager
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Dear Fellow Shareholders,

For the three months ended September 30th 2018, the Third Avenue Value Fund (the “Fund”) returned negative 0.47% compared to MSCI World Index, which returned 5.10%¹. Year to date through September 30th, the Fund returned negative 1.35% compared to positive 5.89% for the MSCI World Index¹. Fund performance continued to trail other relevant world indices in the most recent quarter and year to date period largely as a result of the Fund’s absence of participation in the technology sector. Our previous quarterly letter detailed this dynamic at length.

During the most recent quarter, the Fund’s exposure to the U.S. single-family housing industry provided the largest source of negative performance. Investments in lumber producer Interfor Corp., homebuilder Lennar Corp., and timberland owner Weyerhaeuser Company were all among the Fund’s largest detractors. A combination of rising interest rates and, to a lesser degree, economic uncertainty has, for the moment, slowed the growth of construction and sales of new single-family houses in the U.S. We are of the view that, while higher interest rates increase the cost of mortgages for homebuyers, interest rates and, by extension mortgage pricing, remain low by any historical measurement. Affordability of new homes also remains in very reasonable territory. We are also of the view that very low unemployment, generally strong macroeconomic conditions, normal population growth and natural household formation should continue to push single-family housing starts along their march towards normalized levels, which, at the moment, we are well below. Further, the companies we own are likely to do extremely well under normalized conditions and remain exceptionally inexpensive, particularly after recent declines. In total, it is our view that the Fund remains very well positioned.

Back to the Future

Roughly one year ago, our portfolio management team assumed responsibility for the Third Avenue Value Fund. We stated at that time that it was our goal to return the Fund’s activities to the style employed by Marty Whitman in the earliest and most successful years of the Fund’s operations. We felt that we were well positioned to accomplish that goal given our collective decades of experience working with Marty and our previous tenures managing other Third Avenue funds in that style. The highly distilled version of what that style means to us is a focus on deploying the Fund’s assets into long-term investment opportunities with distressed prices but without distressed financial positions. It also means placing a considerable emphasis on businesses with tangible assets with readily estimable values, specifically those which are

not at risk of obsolescence. During the last twelve months, the Fund has been made significantly more attractive from a valuation perspective relative to where the Fund was one year ago and to global equity index valuations (see table). We believe strongly that this improves our probabilities for favorable future performance but, importantly, we have done this while actually improving the average creditworthiness of the businesses held by the Fund, thereby reducing critical elements of investment risk. The notion that by employing an acute sense of price-consciousness one can improve return prospects while simultaneously reducing investment risk is one of the cornerstones of the Third Avenue investment philosophy.

	Third Avenue Value Fund	Third Avenue Value Fund	MSCI World Index
	09/30/2018	09/30/2017	09/30/2018
P/E using FY1 Est (Incl. Negative Values)	12.66	20.41	16.57
P/E Adj. Trailing 12-Mo	7.93	15.08	17.98
Price to Book	1.03	0.99	2.44
Return on Equity	10.29	8.38	17.68
Price to Sales	0.69	1.32	1.75
Price to Cash Flow	6.40	12.29	11.48
Wtd Avg Mkt Cap (\$M)	23,994	35,738	168,963
Median Mkt Cap (\$M)	8,163	14,354	19,566
# of Positions	33	31	1,194
Top 10 Positions as a % of Portfolio	48.2%	49.1%	--
U.S. Exposure	49%	48%	--
Port. Ending Active Share	92.27%	90.77%	--

Source: FactSet

Another hallmark of the Third Avenue Value Fund in its earlier days was the frequency of resource conversion events, which we describe as corporate actions designed to surface or enhance the value of existing corporate resources. Common types of resource conversions include asset dispositions, asset purchases, spin-offs, mergers, returns of capital, large-scale buybacks, corporate reorganizations, and other means by which latent value is brought to light. It is intuitive that our investment approach, which seeks to identify investments trading at substantial discounts to readily estimated net asset value, would produce relatively frequent resource conversion events. Well-managed companies that are patently undervalued for any meaningful period of time frequently pursue actions to enhance the value of their business or otherwise bring value to light, possibly by crystalizing some or all of the underlying asset value through a disposition. Management teams may also pursue significant share buybacks to enhance value for long-term shareholders. Furthermore, given our determination to purchase well-financed companies, which may be far better capitalized than industry peers, it should be expected that such companies may take advantage of industry downturns by acquiring capital-starved competitors or desirable assets from forced sellers in an

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

effort to enhance the long-term value of their operations. In the event that management teams are not availing themselves of these types of opportunities, an active takeover market in most developed markets frequently leads to these undervalued and well-financed companies being purchased by other opportunistic buyers, whether industry peers or private equity.

During the quarter, the Fund's holdings took part in a considerable amount of resource conversion activity, some of which had a meaningful positive impact on performance.

Ocean Rig UDW – In September Ocean Rig UDW, one of our two offshore drilling rig company investments, agreed to be acquired by larger industry peer Transocean Ltd at an approximate 30% premium to Ocean Rig's pre-announcement trading price. Although we believe the price paid was ultimately on the cheaper side, much of the price paid is in the form of Transocean common stock, which could provide additional upside should one want to continue to hold shares of Transocean. This development led to Ocean Rig being the Fund's second largest positive contributor to performance during the quarter. Ocean Rig is one of two oil service companies we purchased following their reemergence as publicly traded equities following their respective bankruptcy processes. The other such investment is Tidewater. The bankruptcy process allowed both companies to reorganize with pristine balance sheets, essentially all of their debt having been converted into equity. They also initially traded with very compelling valuations and sported high quality underlying assets. As the offshore oil services industry continues its recovery from cyclical depths, the industry consolidation aspect of our investment thesis has certainly picked up steam.

Tidewater Inc. – During the quarter, Tidewater, which is the world's largest operator of offshore service vessels, reached an agreement to acquire smaller peer Gulfmark Offshore and continued to contribute strongly to Fund performance. Tidewater is in prime position to consolidate a beleaguered but recovering offshore supply vessel industry owing to its net cash balance sheet and right-sized cost structure, both of which were achieved through the bankruptcy process. Shortly after the Tidewater announcement, smaller industry peer Harvey Gulf International made a competing bid for Gulfmark, which is indicative of the amount of consolidation taking place in the offshore oil services industry today. We expect the Tidewater and Gulfmark transaction to close as announced and for the combined company to continue to be in a unique position to seek consolidation opportunities to build scale, efficiency and market position into a strengthening market.

Forest City Realty Trust Inc. – In July, Forest City announced that it had concluded a circuitous path to a sale transaction by agreeing to be purchased by a fund managed by Brookfield Asset Management for \$25.35 per share. Previously, Forest City had undertaken a strategic review in its effort to maximize value for shareholders. Over recent years, the company had reduced financial leverage, simplified complex elements of ownership of certain assets, simplified its governance structure by collapsing dual classes of shares, reconstituted its board of directors and converted into a REIT. Notwithstanding the considerable progress, the company remained materially undervalued in the eyes of its board of directors and its shareholders, hence the strategic review. In the context of the review, it

became clear that Forest City had received multiple purchase offers and an acquisition of the company became widely anticipated. In the end, the review concluded in March without having produced a satisfactory bid and the company's board of directors determined that more long-term shareholder value would be created through a go-it-alone plan. Given the significant level of anticipation of a sale transaction, this news sent the stock down materially to levels we believed offered great value with or without a transaction, particularly given the board of directors' determination to maximize value for shareholders. We purchased shares at that time and were rewarded unusually quickly when Brookfield came back to the table with an agreement to purchase Forest City a few months later making it one of our largest contributors to performance during the quarter and year to date.

More broadly speaking we believe that at this point we have repositioned the bulk of the Fund into investments in companies with embedded resources that offer numerous means by which our management teams can create considerable value for shareholders that is incremental to value created from improving operations over time. Many of those same features tend to encourage takeovers of the companies we own as well. In naming a few investments with a decent probability of attracting a future takeover offer we would point to: Hawaiian Holdings, Interfor Corp and eventually Borr Drilling. We also own several very inexpensive companies that are controlled by families who have terrific records of creating shareholder value through timely acquisitions and dispositions of assets and we expect more of the same from: Lennar Corp, Lundin Mining, CK Hutchison Holdings and CK Asset Holdings. In this latter case, the company has been very active in selling highly coveted assets at heady prices, such as its sale of a Central Hong Kong office property for roughly USD 5 billion, a price that translates to an approximate 2% yield to the buyer. Meanwhile the company has been redeploying those proceeds, primarily into infrastructure investments in Europe and Australia, at prices offering yields in the 8% or 9% range. These resource conversion transactions are value enhancing on a grand scale. Over time, we expect that the Fund should increasingly benefit from the resource conversion aspect of our approach.

Quarterly Activity

Buzzi Unicem SpA ("Buzzi")

Throughout the quarter Italian political developments, their implications for Italian government budgets and, in turn, their implications for Italy's relationship with the Eurozone, took center stage. Those developments have not been a positive experience for Italian equities but have resulted in an apparent opportunity for the Fund. Among those impacted by price declines is the equity of Buzzi Unicem. Buzzi's predecessor companies have been in the Italian cement business for more than one hundred years. The company is family controlled and appears to us to be well-run and conservatively financed. Fortunately for Buzzi, the company expanded over the years, building a very large and very profitable U.S. cement business. The U.S. cement market is structurally undersupplied and has seen minimal additions to capacity in recent decades leaving the U.S. dependent upon imports in order to meet a meaningful portion of normal cement demand. Generally

speaking, this puts U.S. cement producers in a position of realizing good prices and enjoying high capacity utilization, both of which contribute to attractive profitability. That is certainly the case today though our expectation is that Buzzi's U.S. operations are likely to enjoy even better days ahead. Buzzi also has operations in Central and Eastern Europe, which in our eyes represent a mix of quality ranging from quite good to somewhat marginal. Turning to Buzzi's home market in Italy, the company has almost 11mm tonnes of annual production capacity, comprising nearly one quarter of Italian cement production capacity, though today Buzzi's Italian operations produce a small operating loss as do the vast majority of Italian cement plants. Italy has seen quite a steep fall in demand over the most recent decade with consumption falling roughly 50% since 2006. The industry, which was built to provide much larger volumes, has been left reeling from low utilization rates and lack of profitability. On the bright side, the Italian industry's largest competitors, Buzzi included, have been participating in consolidating the industry and reducing excess capacity in recent years. There are signs it is helping. If a nascent demand recovery were to gain a bit of momentum, Buzzi's formidable operation could eventually make a huge contribution to profit. In the meantime, the company appears to be valued inexpensively in public markets based on consolidated profit, which means that we are paying a modest price for the U.S. and other non-Italian assets while getting 11mm tonnes of Italian capacity for free. The Buzzi family, who control and manage the company, seem to agree with our conclusions as the company has recently become quite active in buying back shares.

Deutsche Bank AG ("DB")

Deutsche Bank AG is headquartered in Frankfurt, Germany. The company's operations include private banking, global investment banking, wealth management and fund management. Trading at roughly 40% of tangible book value the bank has never fully recovered from the Global Financial Crisis and the European Sovereign Crisis thereafter. In recent years, the company has been besieged by fines, a poor capital position and wide-ranging restructuring efforts that have progressed at a frustratingly slow pace aggravating shareholders and ultimately leading to the termination of two CEOs in the last five years. DB was able to check at least one box by fixing its capital position with a EUR 8 billion rights offering in March 2017 and later the public listing of its asset management business, DWS Group. At the time of the rights offering, DB's share price was roughly EUR 16 and the exercise price of the rights were EUR 11.65 per share. Immediately following the rights offering the recapitalized DB traded at roughly EUR 15.5 per share or approximately 60% higher than the share price today. Yet, as a result of that recapitalization DB today boasts a better balance sheet than most major European banks. DB's share price reflects its inability to demonstrate that it can earn a reasonable rate of return on its capital base. In fairness, shareholders are certainly entitled to their frustrations with half-measures and slow-moving restructuring efforts having generated limited results. The most recent CEO change, in which Christian Sewing took the helm earlier this year, is a reflection that shareholder patience had been exhausted and that Sewing and his board understand that their mandate is to move with alacrity. It is an

over-simplification, but not wrong, to say that DB has two primary problems. First, the German private banking business is structurally less profitable than in many other countries as a result of state participation in the banking industry designed to support German industry. The German private banking industry needs to continue to consolidate and DB is playing its part, most recently through its combination with Postbank. The integration has been slow and clumsy though Sewing has accelerated the efforts. It is expected by many that once DB has digested the Postbank integration it will turn its attention to a potential combination with German rival Commerzbank. Secondly, over time DB's global investment banking business became far-reaching, employed far too much capital, showed poor profitability and was furthermore the source of numerous fines. Under Sewing, DB has begun a retreat from a range of its global investment banking activities, particularly those which employ lots of capital at poor rates of return. DB's most recent restructuring of its U.S. prime brokerage business reflects this strategy. On this front, Sewing must execute rapid cost reduction and retrenchment from specific lines of business while keeping clients convinced that DB remains committed to other lines of business. DB will see some revenue loss by design but must work to cut costs quickly to avoid producing losses in the event that revenue declines run ahead of cost declines. We think they have a good chance of executing on these two agendas and improving returns on equity. If Sewing can shrink DB into its core competencies, resulting in returns on equity even half that of its peers competing in the same lines of business, the investment should work out quite well. After all, we have paid a price that approximates 40% of liquidation value for a well-capitalized banking business.

Thank you for your confidence and your loyalty. We look forward to writing again next quarter.

Sincerely,



Matthew Fine, CFA



Michael Fineman, CFA, CFP

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: October 26, 2018

THIRD AVENUE VALUE FUND

INSTITUTIONAL: TAVFX | INVESTOR: TVFVX | Z: TAVZX

APPENDIX

September 30, 2018

FUND PERFORMANCE

as 9/30/18	1 yr	3 yr	5 yr	10 yr	Since Inception	Inception Date
TAVFX (Institutional)	1.08%	10.00%	4.98%	6.34%	10.72%	11/1/1990
TVFVX (Investor)	0.83%	9.72%	4.72%	(n/a)	5.86%	12/31/2009

TOP TEN HOLDINGS

	% of Portfolio
Warrior Met Coal, Inc.	5.6%
CK Hutchison Holdings, Ltd.	5.5%
Lennar Corp.	4.5%
Brookfield Asset Management, Inc.	4.5%
Tidewater, Inc.	4.4%
Bayerische Motoren Werke AG	4.0%
Lundin Mining Corp.	3.9%
Royal Boskalis Westminster N.V.	3.9%
Weyerhaeuser Co.	3.8%
Comerica, Inc.	3.7%

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, investor and z share classes is 1.13%, 1.38% and 1.03% respectively, as of March 1, 2018. 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.

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