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, 2019. Through the first quarter of the year, the Fund generated a return of +15.84% (after fees) versus +14.68% (before fees) for the Fund’s most relevant benchmark, the FTSE EPRA NAREIT Developed Index.1

While the Fund enjoyed one of its strongest quarters of performance in its two decade-plus history (largely driven by its investments in the common stocks of Hong Kong-based real estate operating companies and US-based companies with ties to the residential markets), Fund Management continues to believe that its long-term results are more relevant gauge of performance.

Since the Fund’s inception in September 1998, it has earned an annualized return of +10.08%. As highlighted in the ensuing chart, this performance indicates an initial investment of $100,000 in the Third Avenue Real Estate Value Fund would have a market value in excess of $700,000 as of March 31, 2019 (assuming distributions had been reinvested), or approximately 75% more than 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 Fund Performance](image)

**Fund Activity:**

In value investing circles, the “fulcrum security” is a term often used when referring to the security of a troubled issuer that is most likely to be exchanged for equity as an enterprise emerges from a restructuring. Put otherwise, these are the claims or obligations that will be the most senior issue to participate in a reorganization. At Third Avenue, the “fulcrum security” has always been more encompassing however, as the aforesaid view fails to recognize that should an issuer be incredibly well-capitalized (e.g., not a troubled issuer), the fulcrum security is more-likely-than-not its common stock.

Whether Secured Debt, Unsecured Claims, or Common Stock, the Third Avenue Real Estate Value Fund has always targeted the fulcrum securities of the issuers in which it invests. This quarter was no different. During the period, the Fund initiated a position in the Convertible Notes of Intu Properties plc (a UK Real Estate Investment Trust) and the Senior Unsecured Notes of The New Home Company (a US Homebuilder), as well as increased its position in the Common Stock of JBG Smith Properties (a US Real Estate Investment Trust).

**Intu Properties plc (“Intu”)** is a UK-based Real Estate Investment Trust (“REIT”) that controls some of the most valuable destination malls and shopping centers in the UK and Spain. Its predecessor company, Capital Shopping Centres, had been owned in the Fund previously but was sold in 2007 (at a profit). Since that time, Capital Shopping Centres has spun-out its London-based holdings as a separate company (Capital & Counties plc – a current holding in the Fund), issued nearly 30% of its stock in exchange for key properties of Peel Holdings (including the 2 million square foot Trafford Centre in Manchester), and changed its name to Intu.

As a result, the enterprise now owns and manages some of the most productive retail properties in Europe, including 8 of the top 20 shopping centers in the UK, as well as 3 of the top 10 malls in Spain (when measured by sales, visits, and catchment). Collectively these assets are 97% leased and draw more than 400 million customer visits annually. While the “left side” of the balance sheet is suitable, the “right side” is not. In fact, the company has been operating with debt levels that seem unsustainably high with an average loan-to-value ratio of nearly 70% by our estimates. For that reason, the company sought out strategic alternatives last year and was ultimately approached by a consortium that...

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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.
proposed privatizing the entity. However, in late 2018, the group dropped its buy-out efforts, which led to a significant decline in the prices for most securities in Intu’s capital structure—including the £375 million of Senior Convertible Notes that the company had issued with a 2022 maturity.

Following additional due diligence efforts, the Fund initiated a position in the Intu Convertible Notes at a substantial discount to its par value. It is Fund management’s view that the company is likely to sell stakes in certain properties (e.g., Spanish assets and Trafford Centre) and potentially even undertake a discounted rights offering to improve its financial position. In this scenario, the Intu Convertible Notes are likely to remain a performing credit—which Fund Management views as the most likely outcome. If not, the vast majority of the company’s debt consists of property-specific mortgage loans (i.e., only recourse to the property not the entire company) and the equity embedded in just a handful of the company’s assets should act as ample coverage for the Unsecured claims (including the Convertible Notes) should Intu ultimately seek administration (the UK equivalent of bankruptcy).

The New Home Company (“New Home”) is a US-based homebuilder that was founded by a group of industry professionals in 2009 including CEO Larry Webb, who previously served as the CEO of John Laing Homes (which was sold to Emaar Properties in 2006) and also as the Chief Restructuring Officer at Landsource (where the Fund participated in a debt-for-equity exchange). Over the past ten years, Webb and his team have built out New Home’s portfolio to include 20 communities in Northern California, Southern California, and Phoenix where the company controls more than 3,000 lots. The company is also a preferred partner of the Irvine Companies, where it engages in fee-building in select communities within Orange County.

Fund Management has tracked New Home since its Initial Public Offering (IPO) in 2014 but had never previously invested in the company as its focus on luxury-homes in some of the most supply-constrained markets nationally had led to strong results and a premium valuation. In 2018, the company faced some headwinds, though, as a combination of higher mortgage rates, a limitation on interest and property tax deductibility, and a pullback from foreign buyers impacted its higher-price point segment of the market on the West Coast. As a result, the company was forced to take impairments on certain projects, leaving overall debt levels at higher-than-ideal ratios spurring a subsequent decline in its security prices—including the company’s $325 million 7.25% Senior Unsecured Notes that mature in April 2022 (“New Home Unsecured Notes”).

Following those developments, the Fund initiated a position in the New Home Unsecured Notes at a discount to par value. It is Fund Management’s expectation that the company will generate enhanced levels of cash flow during 2019 (serving to boost the company’s liquidity profile and reduce its overall debt levels) by (i) selling the vast majority of units remaining at its residential project in Playa Vista, California, (ii) completing $35 million of anticipated land sales, and (iii) opening up additional lower-price point communities in Northern California and Phoenix later this year. As a result, the Notes are likely to remain performing credits. If not, the New Home Notes seem to have ample coverage at the implied prices the securities were purchased (60% of total book value or approximately $100k per lot) as well as strong covenants including a change-of-control provision should the company enter into a capital transaction.

JBG Smith Properties (“JBG Smith”) is a US-based REIT that is the largest corporate owner of commercial real estate in the Washington, D.C. metropolitan area with more than 17 million square feet of office, multi-family, and retail properties. In addition, the company controls land with various forms of entitlements that could accommodate another 20 million square feet of future development.

The Fund first received JBG Common Stock when the company was spun-out of Vornado Realty Trust (another holding in the Fund) as a standalone company in 2017. Nearly a year later, the Fund increased its stake in JBG Common by utilizing a low-cost options strategy to capitalize on the potential of Amazon selecting the company’s Crystal City mixed-use complex for its well-documented “HQ2” search. In late 2018, Amazon announced that it would be splitting the 50,000 jobs it planned to add outside its existing headquarters in Seattle between two locations in Northern Virginia and New York City. While the company has since curtailed its expansion plans in New York, Amazon continues to move ahead with its efforts in Northern Virginia with plans to (i) add at least 25,000 full-time employees, (ii) build more than 4 million square feet of energy-efficient office space (with the opportunity to increase the total to 8 million square feet), as well as (iii) invest $2.5 billion in the Crystal City and Pentagon City corridor in Northern Virginia (which has subsequently been re-named National Landing) in the process.

As the primary property owner in the National Landing area, JBG stands to benefit from this enormous investment in two stages. In the near term, the company will gain from leasing more than 500k square feet to Amazon for its initial relocation to the area, as well as selling land to the company for $294 million that will be utilized in the build-out of the 4 million square feet of office space. The longer-term opportunity at National Landing is even more substantial however, as 25,000 additional employees and $4 billion of investment in the area is likely to lead to a substantial multiplier effect, which could see 75-100k jobs and residents added to the corridor over the next years.

With more than 6 million square feet of office and multifamily properties in the area, JBG is likely to boost its cash flows (and property values) through higher levels of occupancy and rental rates given supply-demand tension. Further, JBG controls entitlements in National Landing
that can allow for an additional 6.9 million square feet of future space to accommodate this growth. As a result, the company seems uniquely positioned to increase its Net-Asset Value ("NAV") over the medium-to-long term, which could have a meaningful impact on the Fund with JBG Smith Common now a top 10 position in the portfolio at 3.8% of Net Assets.

Outside of these additions, the Fund also increased its weighting in the common stock of St. Modwen Properties plc (a UK based real estate operating company) and reduced its holdings in Brookfield Asset Management (a Canadian based alternative asset manager) and Wheelock & Co. (a Hong Kong based real estate operating and investment company). Although the common stock of the latter two issuers remain core positions in the Fund at approximately 5.0% of Net Assets.

**Fund Positioning:**

After incorporating the most recent activity, the Fund ended the quarter with approximately 49.4% of its capital invested in property companies that are involved in long-term wealth creation. These holdings are largely capitalizing on the further densification and mixed-use nature of key urban corridors and primarily include: CK Asset Holdings, Brookfield Asset Management, Berkeley Group, Henderson Land, Wheelock & Co., JBG Smith Properties, and Derwent London. Each of these enterprises is very well-capitalized, trades at a discount to our estimate of NAV, and seems capable of increasing NAV by a low double-digit rate (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 30.6% 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 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 continued recovery in housing fundamentals, particularly from a further increase in the construction of single-family homes in supply-constrained markets and those experiencing robust levels of household formation, as well as higher overall levels of residential purchase activity and home improvement spending.

An additional 15.6% of the Fund’s capital is invested in special situations such as: Macerich, PNC Financial Services, Trinity Place Holdings, and The New Home Company in the US; Capital & Counties plc and Intu Properties plc in the UK; and Wharf Holdings in Hong Kong.

The remaining 4.4% of the Fund’s capital is in cash & equivalents (e.g., short-term US Treasuries). The Fund also maintains certain hedges, most notably relating to its exposure to the Hong Kong Dollar.

**Fund Commentary:**

Third Avenue's late-founder, and value investing legend, Marty Whitman often quipped that it was utter nonsense to expect actively managed funds to consistently outperform relevant indices when measured over the shorter-term (e.g., daily, weekly, monthly, or quarterly). Instead it has always been our belief at Third Avenue that an actively managed fund with a sound strategy, robust process, and aligned portfolio management team would have strong prospects to outperform relevant benchmarks over the long-term, on average, and most of the time.

Within that context, a study published by Alpha Architect recently piqued Fund Management’s interest. In its summary, *Even God would get fired as an Active Investor*, the group studied (i) what the results would look like if a Portfolio Manager could go back with 20-20 hindsight and select the top 10% performing stocks out of the 500 largest listed companies over five-year periods beginning each calendar year and (ii) how those portfolios would perform relative to the broader markets over the holding period. This retrospective strategy was analyzed for every five-year period running back to 1927, and the results are astounding.

It goes without saying: the returns of the portfolios comprised of the top performers within an index provided outsized results (in this case an average annualized return of +29%). More interesting, however, is the non-linear path that was associated with achieving that performance. In the study, Alpha Architect found these portfolios tended to be more volatile than the overall market (having a standard deviation of returns of 22.41% relative to the S&P 500 of 18.96%) while also experiencing periods of significant drawdowns that were in some cases much more pronounced than the broader markets—including more than 10 periods where the hypothetical portfolios declined by more than 20% (as well as five instances where the portfolios declined by more than 30% including a max drawdown of more than 75%).

Fund Management has long recognized that sound strategies will fall out of favor for certain periods of time and has eschewed building portfolios that mimic an index simply to avoid tracking error. Instead the focus has always been to concentrate the Fund’s capital on a select-set of...
thoroughly analyzed real estate and real estate-related securities that share the following characteristics:

1. **The Issuers of the securities own very high-quality assets and hard-to-replicate franchises.** To wit, the Fund’s commercial real estate exposure is largely comprised of a diversified set of property types (office, retail, industrial, and serviced apartments) in high-barrier to entry markets globally (New York, London, Hong Kong, San Francisco) that possess favorable supply-demand dynamics and are collectively 94% leased on an average lease term of 4.0 years. The Fund’s real-estate related exposure is largely comprised of enterprises with market-leading positions in timberlands, homebuilding, home improvement, title insurance, moving and storage, and brokerage activities that would all be incredibly challenging to replicate—if not impossible without buying outright.

2. **The Issuers are incredibly well-capitalized.** The Fund exclusively focuses its common stock investments on companies that have staying power so that they can not only withstand the inevitable cyclicality of the property markets but also capitalize on dislocations along the way. At the end of the quarter, the Fund’s holdings had an average net debt to asset ratio of 18% as of the most recent reporting periods (the lowest level on record for the Fund) and even includes five enterprises that are net cash (i.e., cash exceeds debt).

3. **The Issuers are run by competent and aligned control groups.** Third Avenue assesses management teams on their abilities as operators, financiers, and investors and believes that some of the most accomplished groups in the global real estate space are at the helm in a number of the Fund’s holdings. In addition, the control groups are remarkably well-aligned with the Fund (as an outside passive minority investors) with insiders owning more than 20% of the common stock of the Fund’s holdings when viewed in the aggregate.

4. **The Securities are trading at prices that represent discounts to conservative estimates of Net-Asset Value.** With an effort to limit the downside, the Fund targets securities trading at discounts to durable estimates of Net-Asset Value. At the end of the quarter, the Fund traded at more than a 13% discount to conservative estimates of the underlying NAV of its holdings when viewed in the aggregate, and at more than a 28% discount to Fund Management’s estimate of private market values.

5. **The Issuers of the Securities are positioned to increase the underlying NAV (per share).** Over the years, the Fund has gravitated towards focusing more capital on businesses that not only trade at discounted valuations, but can also compound NAV during the holding period (creating two ways to “win” over the Fund’s average holding period of approximately five years). As a result, the Fund has exposure to some of the most well-located regeneration projects in key markets globally (NYC, DC, the UK, Hong Kong) as well as the largest land banks in key urban corridors including Hong Kong, London, coastal California, the Pacific Northwest, and the Southeastern portions of the US that all have significant higher-and-better use potential.

With a focus on the securities of real estate and real estate-related issuers that share these attributes, alongside the occasional special situation investment as the market allows (e.g., Intu and New Home Bonds), the Third Avenue Real Estate Value Fund will undoubtedly deviate from the broader real estate indices over shorter periods of time. It is however our view that a focus on these types of securities gives the Fund the best prospects to outperform relevant benchmarks over the long-term, on average, and most of the time—our ultimate goal as managers (and substantial investors in the Fund).

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

Sincerely,

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 March 31, 2019 (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: April 17, 2019
APPENDIX

March 31, 2019

FUND PERFORMANCE

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<th>1 yr</th>
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<th>Since Inception</th>
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<td>12/31/2009</td>
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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 1.12%, 1.41% and 1.03%, respectively, as of March 1, 2019. 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 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 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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