

October 31, 2016

Michael Winer | Lead Portfolio Manager  
Jason Wolf, CFA | Lead Portfolio Manager  
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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 October 31, 2016.

**PORTFOLIO ACTIVITY**

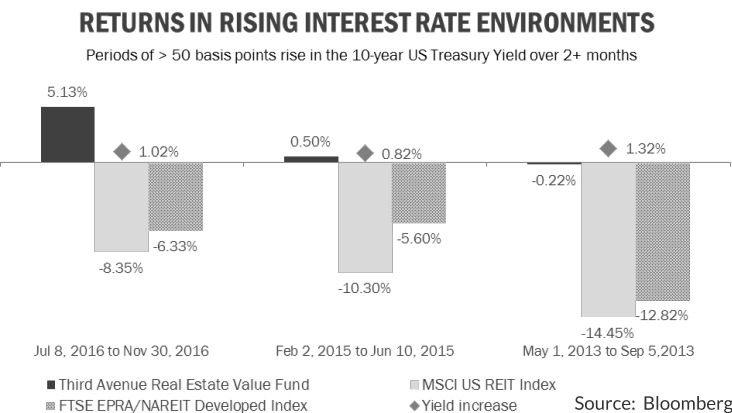
Nearly four years ago, Fund Management set out to reposition the Third Avenue Real Estate Value Fund as a real estate portfolio that would not only strive to protect capital in a rising interest rate environment--but as one that could potentially benefit from it. The basis for the shift was simple: record amounts of capital had flowed into commercial real estate investments given their "yield appeal", driving down cap rates (initial yields) for commercial properties to record low levels, resulting in historically high property values that may not prove durable over an extended period of time. Recognizing that higher interest rates would likely lead to higher cap rates, and thus lower asset values for most property types, Fund Management started repositioning the portfolio to withstand such a scenario.

As we outlined in the Fund's letter for the quarter ended January 31, 2013, to protect the Fund's capital against the threat of rising interest rates we reduced the Fund's exposure to yield-oriented real estate securities (e.g., Real Estate Investment Trusts or REIT's) that had been bid up in price by yield-oriented investors. REIT stock prices rose to levels representing premiums to Net Asset Value ("NAV") particularly due to large inflows into passive strategies such as index funds and ETF's. Instead, the Fund's capital was focused on (i) companies with securities trading at discounts to more durable property values that were generally more dependent upon a company specific event to surface value as opposed to the general direction of interest rates, as well as (ii) property types that had shorter-term leases such as retail, industrial, and multi-family properties where cash flows can increase in an inflationary environment to offset higher cap rates, as opposed to property types such as healthcare and net-lease where cash flows are largely locked-in for terms of twenty years or more.

Further, in an effort to potentially benefit from rising interest rates, the Fund also increased its exposure to real estate related businesses which could be viewed to be more economically sensitive with strong ties to the U.S.

residential markets (in particular the construction of single-family homes) as well as commercial real estate companies with well-located development projects that could potentially capitalize on demand recovery and earn outsized returns relative to their peers who were acquiring assets at record-low cap rates. In addition, the Fund initiated modest investments in real estate related businesses whose earnings had been depressed due to the record-low interest rate environment and would likely prosper in a higher-rate environment (e.g., U.S. Banks).

Since that time, there have been three periods where the yield on the 10-year U.S. Treasury has increased by more than 0.5% (50 basis points) over two or more months. As shown in the chart below, the Fund has provided drastically different returns in those time periods relative to real estate benchmarks and most real estate mutual funds. In fact, the Fund has provided an average return of +1.8% in these periods of rising interest rates while the Fund's most relevant benchmark, the FTSE/EPRA NAREIT Developed Index<sup>1</sup>, has generated an average return of -8.3% and the MSCI U.S. REIT benchmark<sup>2</sup>, the RMZ Index, has generated an average return of -11.0%. Using these three periods as a guide, the Fund's positioning seems to be accomplishing what we originally set out to achieve in 2012 in terms of (i) striving to protecting capital in periods of rising rates and (ii) potentially benefiting from it. In the process, we believe that the Fund has established itself as a real estate alternative for those who share our skepticism that rates will remain at existing levels in perpetuity, but also believe that property (and other real assets) is a well-suited place to invest capital and protect it from inflation over time.



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 The MSCI US REIT Index is a free float-adjusted market capitalization index that is comprised of equity REITs. The index is based on MSCI USA Investable Market Index (IMI) its parent index which captures large, mid and small caps securities.

With this framework in mind, the portfolio activity this quarter supported the positioning outlined above as the Fund further reduced its U.S. REIT exposure, increased its residential related positions such as Lennar Corp. (“Lennar”), and initiated a special situation investment in Parkway Inc.

The capital raised through the reductions in certain REIT investments was used to increase existing investments, most notably the common stock of Lennar, which is now a top position in the Fund<sup>3</sup>. As outlined in previous letters, Lennar is a well-capitalized and well-managed U.S. homebuilder that focuses on some of the most desirable markets on the West Coast, Texas, and throughout the Southeast. While Lennar is known as a best-in-class homebuilder, it is now much more than that. Over the past few years the company’s highly-regarded management team has strategically built out other platforms including: (i) one of the most valuable land development companies in the U.S. through its investment in Five Point Communities; (ii) one of the largest developers of apartment communities through Lennar Multifamily; (iii) a sizable commercial real estate investment and asset management platform in its Rialto subsidiary; and (iv) a profitable mortgage and title business in Lennar Financial Services. Looking out over the next few years, it seems likely that Lennar will take steps to establish some of the subsidiaries as standalone businesses to surface value (e.g., Five Point, Lennar Multifamily, and Rialto), leaving Lennar as more of an asset-light homebuilder that may trade at a premium to book value given the increasing cash flow profile of its highly profitable homebuilding business as home starts return to more normalized levels. During the quarter, though, Lennar Common traded at prices that represented nearly book value and less than 10 times earnings for its core homebuilding business while ascribing modest valuations for its strategic investments.

The Fund also initiated a “special situation” investment in the common stock of Parkway Inc. (“New Parkway”) as it was spun out of Cousins Properties (“Cousins”) as a separate entity in conjunction with Cousins merging with Parkway Properties (“Old Parkway”). Cousins and Old Parkway were both U.S. REITs that owned office portfolios located in the Southeastern portion of the US. However, both companies traded at discounted valuations because of their outsized exposure to the Houston market, which has been under pressure given the recent retrenchment of energy related businesses and new supply coming on-line in a number of sub-markets. In order to address this issue, Cousins and Old Parkway announced that they would merge into a combined company creating one of the leading owners of office space in the Southeast and spin-out the combined Houston portfolio into a separate company that would be named Parkway Inc. and control more than 8 million square feet of office space in Houston including a market leading position in the Greenway Plaza

sub-market. As we have witnessed in a number of spin-offs over the years, the shares of New Parkway were sold indiscriminately by legacy shareholders leaving Parkway Common trading at prices that represented a significant discount to the private market value of the underlying portfolio. In this case, the Fund purchased shares at prices that implied a 10% plus cap rate (which is based off of 86% occupancy) and values of nearly \$180 per square foot (a significant discount to replacement cost). While Fund Management recognizes that fundamentals in Houston are unlikely to improve anytime soon, it is our view that the public markets will ultimately recognize the value when market conditions within Houston stabilize. If not, Parkway’s control group (which the Fund has been invested alongside before at Thomas Properties Group and Old Parkway following a merger of the two entities) could engage in a series of private market transactions over time to eliminate the price to value discrepancy that exists today.

## PERFORMANCE & POSITIONING

Year-to-date through November 30, 2016, the Fund had returned +4.8%<sup>4</sup> for the calendar year (after fees) versus +1.9% for the Fund’s most relevant benchmark, the FTSE EPRA NAREIT Developed Index (before fees). While the Fund has outperformed on a year-to-date basis, Fund Management remains focused on long-term performance where it has also exceeded the index earning an +11% annualized return since its inception in 1998. In terms of positioning, the Fund has approximately 46% of its capital invested in property companies that are involved in long-term wealth creation after accounting for activity during the quarter. Some of these holdings include Land Securities, Cheung Kong Property, Forest City Realty Trust, Westfield Corp, Brookfield Asset Management, 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 a 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 has a further 36% 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 Holdings and Tejon Ranch), homebuilding (Lennar Corp), and home improvement (Lowe’s). As outlined in more detail below, all of these businesses seem poised to benefit from a further recovery in housing fundamentals. An additional 14% of the Fund’s capital is invested in special situations such as Colonial in Spain, IVG in Germany, and Trinity Place Holdings in the US. The amount of capital allocated to special situations has declined during the year as certain M&A candidates have been reduced for valuation reasons (i.e., U.S., European, & Australian REITs) and is likely to decline

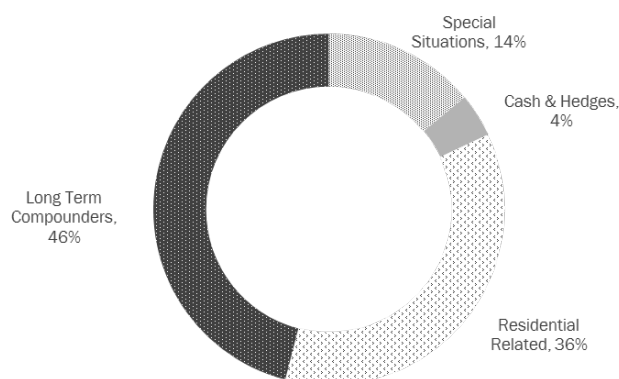
<sup>3</sup> Portfolio holdings are subject to change without notice. The following is a list of Third Avenue Real Estate Value Fund’s 10 largest issuers, and the percentage of the total net assets each represented, as of October 31, 2016: Cheung Kong Property Holdings, Ltd., 5.4%; Land Securities Group PLC, 5.3%; Weyerhaeuser Co., 5.2%; FivePoint Holdings LLC, 5.1%; Forest City Realty Trust, Inc., Class A, 5.0%; Rayonier, Inc., 4.8%; Westfield Corp., 4.2%; Henderson Land Development Co., Ltd., 4.1%; Brookfield Asset Management, Inc., 4.0%; Lennar Corp., 4.0%.

<sup>4</sup> Please see Appendix for performance table and information.

further in the first part of 2017 as IVG has recently agreed to sell its office portfolio to funds affiliated with the Blackstone Group with the proceeds expected to be returned to shareholders via a special dividend in the first quarter. The remaining 4% of the Fund's capital is in cash and equivalents as the Fund remains nearly fully-invested, given the double-digit discount 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.

## ALLOCATIONS AS OF OCTOBER 31, 2016

(allocations subject to change)



## VALUE CONFERENCE

Third Avenue Management recently hosted its Value Equity Conference in New York City where its investment professionals provided updates on the Real Estate, Value/Small Cap, and International strategies as well as on select deep value opportunities within the various portfolios. Alongside the conference, Third Avenue released copies of *Dear Fellow Shareholders...*, a recently published compilation of shareholder letters written by Third Avenue's founder Marty Whitman. These letters span more than 30 years of his esteemed investment career and outline the foundation for Third Avenue's balance sheet approach to value investing.

Within the book, there are countless concepts that Fund Management adheres to when analyzing real estate securities and managing the Third Avenue Real Estate Value Fund. One that we discussed in detail at the conference was the view that as long-term value investors at Third Avenue, we don't necessarily select industries but instead they "choose us." At first this wouldn't seem to be the case as managers focused on real estate and real estate related securities, but the concept is actually quite relevant as we have never strived to allocate a certain amount of the Fund's capital into a particular market or property type simply to be in line with widely followed benchmarks. Instead, we invest capital in real estate securities that offer compelling discounts to durable values while taking a longer-term view. And as we discussed at the conference, there seem to be three areas in global real estate offering outstanding value at the present time.

First is in the securities of real estate related businesses

that have strong ties to the U.S. residential markets, especially those with exposure to further gains in the production of new homes and associated purchase activity. After many years, first-time homebuyers are finally returning to the market, driving an increase in single-family construction. In fact, annualized home starts recently reached 1.3 million units in September 2016 marking an 8-year high with single-family homes providing the vast majority of the gains by increasing more than 20% year-over-year. This activity remains below long-term averages, though, despite a significantly larger population in the U.S. and a shortage of inventory in most key markets. The primary impediments limiting a return to more traditional levels of construction include a shortage of improved lots, a lack of skilled labor, and more restrictive financing availability. Pressure seems to be alleviating on all three fronts and should ultimately result in more normalized levels of building activity, further boosting the earnings and cash flows of those well-capitalized businesses that have battled through this choppy recovery. This includes the Fund's investments in timber companies Weyerhaeuser and Rayonier, land development companies Five Point Holdings and Tejon Ranch, homebuilder Lennar Corp, home improvement retailer Lowe's, and title insurer FNF Group.

The second area of interest is in the securities of well-capitalized property companies that own irreplaceable portfolios of assets in outstanding markets but are currently out of favor due to near-term headwinds. This primarily includes companies with large investments in London and Hong Kong and to a lesser extent energy related markets like Houston (e.g., Parkway). As outlined in detail in the Fund's previous letter, property companies based in the UK are currently dealing with the uncertainty of what impact "Brexit" will have on occupier markets particularly financial services. In Hong Kong, real estate businesses continue to trade at steep discounts to private market values largely due to the lack of a takeover market and what are believed to be outdated corporate structures and capital allocation policies. When looking out over the next 2-3 years, it seems likely that these issues will be further addressed, alleviating the large discounts at which the common stocks for companies like Land Securities, Cheung Kong Property, Henderson Land, and Wheelock & Co currently trade (anywhere from 30-60% discounts to published NAV's).

And the third area currently offering compelling values for longer-term investors is in a select set of real estate businesses that are capitalizing on secular changes within property markets to put their existing asset bases to a higher and better use. These trends primarily include the shift to "live-work-play" environments and the continued transformation of retail shopping patterns given the rise of e-commerce.

Therefore, the Fund is concentrating its capital in commercial real estate companies like Forest City, Brookfield, and Vornado that can further transform their concentrated property holdings to meet the needs of real estate users, which are increasingly looking for mixed-use environments within urban settings. In addition, the Fund continues to avoid commodity-like shopping centers, instead focusing on destination centers--like those owned by Westfield Corp--which serve as the primary point of contact for retailers and customers in a given market and are increasingly being sought after by “e-tailers” as they adopt an omni-channel business model. The Fund also remains invested in productive industrial real estate portfolios like those owned by First Industrial, Segro, and Global Logistics which continue to enjoy a structural increase in demand from tenants given the rise of e-commerce and the distribution networks needed to support those activities.

With the vast majority of the Fund’s capital invested in these three pockets of global real estate--alongside a select set of “special situation investments” and an avoidance of most yield-sensitive real estate securities--we believe the Third Avenue Real Estate Value Fund is uniquely positioned and set to continue providing superior risk-adjusted returns as it enters its 19th year of operations.

We thank you for your continued support and look forward to writing to 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

INSTITUTIONAL: TAREX | INVESTOR: TVRVX

## APPENDIX

October 31, 2016

### FUND PERFORMANCE

<u>as of 11/30/16</u>	<u>1 yr</u>	<u>5 yr</u>	<u>10 yr</u>	<u>Since Inception</u>	<u>Inception Date</u>
TAREX (Institutional)	2.61%	12.36%	2.86%	10.62%	9/17/1998
TVRVX(Investor)	2.35%	12.08%	(n/a)	9.21%	12/31/2009

<u>as of 10/31/16</u>	<u>1 yr</u>	<u>5 yr</u>	<u>10 yr</u>	<u>Since Inception</u>	<u>Inception Date</u>
TAREX (Institutional)	0.05%	11.11%	3.16%	10.59%	9/17/1998
TVRVX(Investor)	-0.21%	10.83%	(n/a)	9.13%	12/31/2009

<u>as of 9/30/16</u>	<u>1 yr</u>	<u>5 yr</u>	<u>10 yr</u>	<u>Since Inception</u>	<u>Inception Date</u>
TAREX (Institutional)	8.46%	14.44%	3.97%	10.86%	9/17/1998
TVRVX(Investor)	8.20%	14.16%	(n/a)	9.81%	12/31/2009

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](http://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, 2016. 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

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 October 31, 2016 (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.

**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](http://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.

Date of first use of portfolio manager commentary: December 5, 2016

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**THIRD AVENUE**  
MANAGEMENT

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