

October 31, 2016

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Dear Fellow Shareholders:

We hosted Third Avenue's 19th annual Value Conference in November. We were thrilled to see and speak to many of you at the conference, and for those of you who were unable to attend, we thought it might be interesting/instructive to share highlights of our discussion.

"Seeing through the Headlines" - that was the title of the panel we participated on at the Value Conference...and with the recent U.S. presidential election, what a lot of macro headlines we had this quarter!

Third Avenue's investment philosophy has always been rooted in fundamental, bottom-up research. We look for companies that are well-capitalized both on balance sheet and off, have the potential to compound value over the next three to five years, are managed by teams that are aligned with outside, passive shareholders like us, and are trading at a discount to NAV.

Consistent with our investment philosophy, we do not construct individual investment cases or position our portfolios with a "call" on economic predictions. We have not seen macro predictions, in general, come true consistently in either direction or timeframe. Yet another example on why "following the herd" is a mistake would have been listening to the pundits on the recent U.S. presidential election and the market rally in the ensuing days. Our fundamental investment cases and portfolio construction do not rely on short-term forecasts. The unexpected is, by definition, not in macro forecasts, which is why we underwrite our investment cases and structure our portfolios to weather short-term macro influences with an eye on long-term value creation. We use our investment philosophy as a guidepost to "see through the headlines." As our founder Martin Whitman wrote years ago, "Value investors do not think in absolutes. They know that there are no perfect investments. Rather they figure out what is wrong with any particular investment and may proceed to invest if what appears to be wrong does not seem to be a showstopper."

As per our investment philosophy, every one of our analyses begins with the balance sheet. Having a strong balance sheet positions a company to withstand short-term economic shocks without the fear of having to adversely

look to raise outside capital. Said differently, a strong balance sheet lets us "risk time instead of capital."

A good example of this is Comerica (CMA), a regional bank. Comerica has endured negative macro headlines-- from low oil prices potentially leading to loan losses, to headlines on the potential negative impact of consistently low interest rates on its net interest margins, and headlines relating to the impact of weak GDP on weak loan demand. Yet, because of its strong financial position, Comerica has survived these over-hyped fears without altering its corporate strategies. It has been able to focus on cost control measures while targeting geographic growth and significant capital return through dividends and buybacks, enabling it to grow its tangible book value by 9.3% over the past two years.

We actually view the fears of bad headlines as a source of potential upside, icing on the cake if you will, through earnings growth potential once interest rates rise, and loss reserves are likely reversed and loan growth accelerates with a stronger economy. Comerica was the Fund's second largest position at 6.0%¹ of assets as of October 31, 2016, vs. 0.03% for the MSCI World Index². Our conviction allows for our concentration.

As shown with the Comerica example, poor near term outlooks often provide investment opportunities for us. Our focus on the bottom-up also enables us sometimes to uncover situations that are misunderstood by the market. What do we mean by misunderstood? We look at a lot of different companies and will watch some for multiple years. What we have found is that sometimes opportunities arise when companies undergo some sort of resource conversion event, i.e., a sizable transformation, whether a spin off or sale of a substantial portion of their business, a major share buyback or the like. In situations like these, companies may no longer fall into a clear industry or get covered by the same analysts and thus become mis-valued by the market.

An example of a company fitting that profile is Johnson Controls (JCI). JCI had been taking steps over the past few years to divest its lower margin automotive businesses and focus on its higher margin and growth building systems and power solutions businesses. The company had already announced the spin-off of the automotive seating/interiors

¹ Portfolio holdings are subject to change without notice. The following is a list of Third Avenue Value Fund's 10 largest issuers, and the percentage of the total net assets each represented, as of October 31, 2016: Bank of New York Mellon Corp., 6.6%; Comerica, Inc., 6.0%; Weyerhaeuser Co., 5.7%; PNC Financial Services Group, Inc., 4.5%; Brookfield Asset Management, Inc., 4.0%; CK Hutchison Holdings, Ltd., 4.0%; White Mountains Insurance Group, Ltd., 3.9%; Total S.A., 3.8%; CBS Corp., 3.6%; Cavco Industries, Inc., 3.5%

² 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.

business and had announced a merger with Tyco to broaden its building systems offerings by adding security and fire solutions, bringing it into the final innings of transforming itself into a multi-industrial. Despite these steps, the market continued to value JCI as an automotive supplier and was not giving it credit for its value-creating activities. At Third Avenue, we're focused on bottom-up company fundamentals and are agnostic about which sector our holdings are in. But if the indices misclassify companies and present us an opportunity to invest in a high quality company at a discounted price, we get excited. And interestingly, the situation with JCI was somewhat reminiscent of Visteon Corporation, which we own in the Third Avenue Small-Cap Value Fund when it too, was misunderstood.

FUND PERFORMANCE

For the fiscal quarter-ended October 31, 2016, the Value Fund returned 0.14%³ compared to -1.21% for the MSCI World Index and -1.67% for the S&P 500⁴. On a calendar year-to-date basis, the Value Fund returned 6.60% vs. MSCI World at 4.04% and the S&P 500 at 5.87%. During the quarter, the top contributing sector was Financials with top performers including Comerica (CMA), PNC Financial Services (PNC) and Bank of New York Mellon (BK), while detractors were Brookdale Senior Living (BKD), Tejon Ranch (TRC) and Weyerhaeuser (WY).

Comerica, PNC and BK benefited from cost-control activities, low loan losses and expectations of an interest rate hike later this year.

Brookdale Senior Living posted a weak third quarter on lower volumes, but we like the strong pricing growth and real estate monetization efforts that should benefit looking forward. Tejon Ranch and Weyerhaeuser underperformed due to short-term concerns, though we continue to believe in their longer-term opportunities for value creation, both from internal self-help measures as well as eventual benefits as housing markets recover.

PORTFOLIO ACTIVITY

During the quarter, we added to our positions in Amgen (AMGN) and Shire (SHPG). Healthcare is clearly a sector that's been in the headlines recently – from spec pharma issues to political controversy over drug pricing, Obamacare, etc. We've been patiently watching the industry as it has been pressured. The fundamentals are clearly attractive given the longer-term demands for healthcare due to the aging of the population. Both Amgen and Shire have diversified product portfolios and solid cash flow generation that they are using to fund growth as well as return cash to shareholders and promising pipelines. Given the abundance of negative near-term headlines, we were able to add to the positions at attractive valuations, ones where we weren't paying much for their base businesses and little, if anything, for the pipelines.

We took advantage of market volatility during the quarter to exit our position in General Motors (GM) as it reached our fair value estimate and we see early signs of potential auto cycle peak levels slowing. We used the proceeds to invest in higher growth opportunities.

Post quarter-end, Harman International Industries (HAR) announced that it had agreed to be acquired by Samsung Electronics for approximately \$8 billion (\$112 per share) in cash. The deal is expected to close in mid-2017. We are pleased to see that Samsung saw the attraction in Harman, as we did, and while it wasn't central to our initial investment thesis, we aren't surprised that Harman was a take-over target. Harman is a leading supplier of infotainment and connected car solutions and its technology will give Samsung quick entrée into a new and growing market. The purchase price at 10x EBITDA is fair, though as a standalone company, we could still see Harman with further potential upside over time.

NEW POSITIONS

Lennar Corporation (LEN)

At our Value Conference, our colleagues on the Real Estate team revisited one of Marty Whitman's quotes from October 1996: "Given Third Avenue's investment criteria, it is more accurate to view the situation as the industry selecting the Fund, rather than Third Avenue choosing the industries in which to invest." We think this quote superbly describes the opportunity the Value Fund saw in establishing a position in Lennar Corporation common in the quarter, as the shares somewhat inexplicably sold off from nearly \$50 at their recent peak and allowed us to establish a position at just over \$41 per share.

We have followed Lennar for years as the Real Estate team reviewed the position at our weekly research meetings, and think the investment case has only improved on a fundamental level despite the widening valuation discount in the shares. Lennar meets every tenant of our investment philosophy.

The balance sheet is strong and improving. Net debt to total capital has fallen 5.3% since year-end 2011 to 45.8% as of 3Q16, and net debt to total assets is not challenging at 37%. Much of this improvement is the result of management's soft pivot land strategy, which is reducing the duration of its owned land bank and converting its undervalued balance sheet assets into cash. This balance sheet improvement should continue as Lennar's \$400 million redeemable convertible debt matures in November 2016, which should further reduce balance sheet leverage by 200 basis points.

From a compounding point of view, Lennar continues to build value through developing its land bank into saleable housing units, and by monetizing further transaction values through its mortgage origination and title insurance

3 Please see Appendix for performance table and information.

4 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.

offerings to its home buyers. Notably, we are pleased and supportive of Lennar's offer to acquire WCIC Communities (WCIC), a top holding of the Third Avenue Small-Cap Value Fund, as Miami-based Lennar knows WCIC's 100% based Florida assets intimately. Lennar not only sees compelling opportunities to monetize WCIC's over 14,000 homesites, but also synergy opportunities from management and supplier overlap. Further, in our opinion, Lennar negotiated an extremely good price for WCIC, which when considering the value of WCIC's brokerage operation and the hidden value of WCIC's owned coastal tower pads, will likely bring tremendous value as Lennar has a strong balance sheet to move construction of these assets forward.

Lennar's resource conversion outlook is compelling, with management likely to monetize its non-homebuilding investments in FivePoint and Rialto over the next 12-18 months through sales or spin-outs, and then over time, potentially further monetize its Multi-Family and even its Financial Services divisions through sales or partnerships. The value creation of Rialto, its 3rd party asset-light asset management unit with over \$7.3 billion in AUM, and of FivePoint, its development and management company with over 40,000 homesites and 20 million square feet of commercial real estate assets in highly coveted California markets are, in our opinion, completely overlooked by the markets from a net asset value perspective, as their income statement impact today belies their true value to Lennar despite being worth more than 25% of the underlying value.

Perhaps Lennar's most exciting aspect is the strength of the investment case and current undervaluation taken without the likely strong tailwind of an improving housing cycle. At our Value Conference we talked about taking advantage of optically poor headlines, and Lennar is another real-time example. We think some of the weakness in Lennar shares in October was due to a weak single family home starts number for September, down 9.5%. The noise of monthly home start numbers do not impact the long-term value we see in Lennar. While Lennar's sales and earnings are likely to strengthen as the single family construction cycle continues to recover from an extended cyclical low looking back to 2007, we see this as icing on the cake of our strong investment case. At our cost of just over \$41 per share, we see over 25% upside to our estimate of fair trading value of \$53, and longer term potential for shares to trade to over \$66 per share if the single family cycle gains steam.

Adient (ADNT)

We received shares of Adient upon its spin-off from JCI at the end of October. Adient is the market leading provider of automotive seating in North America, Europe and China. It has longstanding relationships with all of the major global Original Equipment Manufacturers as well as growing regionals such as Brilliance, Great Wall Motors, SAIC Motor, Tata Motor, and newer manufacturers such as Tesla. It also has an equity JV with Yanfeng Automotive in

China for interior trim systems such as door panels, instrument panels and consoles. The company is geographically diversified, providing some balance with regard to regional economic cycles. Seating, while it sounds fairly mundane, is actually benefiting from enhanced features to increase passenger comfort such as heating/cooling, massage, lumbar support and advanced seat adjustability as well as an increasing shift globally to SUVs, which have higher seating content. For luxury vehicles, the second row bench seat of yesteryear is a thing of the past, having been largely replaced by captain's chairs with all of the passenger comfort amenities. This trend is also moving toward mass market vehicles, increasing the percentage of higher margin seating solutions. Longer term, the opportunity for further enhanced seating exists with conversion of the third row of seats, autonomous driving as well as opportunities to expand into adjacent areas for seating, e.g., commercial vehicles, railway and aircraft seating. Now a standalone entity, Adient has greater ability to focus on growing its core business, along with opportunities for self-help. We believe the company has been under earning as the business has been somewhat capital constrained under its former parent. Also, there are opportunities for margin improvement driven by operating efficiencies and cost reduction initiatives.

CONCLUSION

Looking forward, we remain optimistic about the portfolio and the opportunities for our investee companies to grow and compound value over time. Our focus on bottom-up fundamentals enables us to "see through the headlines" and take advantage of market volatility. Indeed, the recent turbulent environment has supplied many names for our current work-in-process lists.

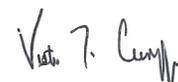
We thank you for your continued trust and support and look forward to writing to you again in January, as we move to synchronize our quarterly letters with the calendar quarters. Until then, we hope you have a safe and happy holiday season.

Sincerely,

The Third Avenue Value Team



Chip Rewey
Lead Portfolio Manager



Vic Cunningham
Portfolio Manager



Yang Lie
Portfolio Manager

THIRD AVENUE VALUE FUND

INSTITUTIONAL: TAVFX | INVESTOR: TVFVX

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>
TAVFX (Institutional)	5.72%	10.09%	2.19%	10.96%	11/1/1990
TVFVX (Investor)	5.43%	9.81%	(n/a)	5.54%	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>
TAVFX (Institutional)	2.00%	7.65%	1.96%	10.78%	11/1/1990
TVFVX (Investor)	1.74%	7.38%	(n/a)	4.83%	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>
TAVFX (Institutional)	12.86%	10.31%	2.28%	10.88%	11/1/1990
TVFVX (Investor)	12.55%	10.04%	(n/a)	5.14%	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. The gross expense ratio for the fund's institutional and investor share classes is 1.13% and 1.38%, respectively, as of March 1, 2016. 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.

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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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