Portfolio Manager Commentary

REAL ESTATE VALUE FUND

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29 yrs investment experience

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Joined Third Avenue in 2006
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Dear Fellow Shareholders,

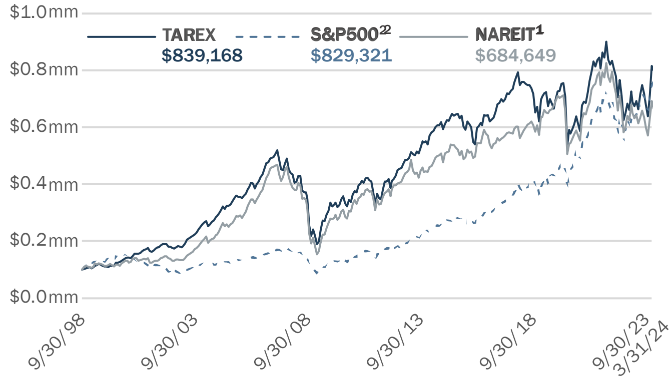
We are pleased to provide you with the Third Avenue Real Estate Value Fund's (the "Fund") report for the quarter ended March 31, 2024. For the first quarter of the calendar year, the Fund generated a return of +2.81% (after fees) versus -1.11% (before fees) for the Fund's most relevant benchmark, the FTSE EPRA/NAREIT Developed Index[1].

The primary contributors to performance during the period included certain holdings involved with Residential Real Estate (Lennar Corp., D.R. Horton, Lowe's, and Ingenia Communities) as well as the Fund's position in the preferred equity of the GSEs[3] (Fannie Mae and Freddie Mac). Notwithstanding, these gains were somewhat offset by detractors during the quarter, which included the Fund's investments in self-storage related enterprises (U-Haul Holdings and Big Yellow plc) and various international holdings (CK Asset and Grainger plc). Further details on a number of these companies, other notable developments, and portfolio positioning are included herein.

Despite the performance in the period, Fund Management believes the Fund's long-term results are the most relevant scorecard. To that end, the Fund has generated an annualized return of +8.68% (after fees) since its inception more than twenty-five years ago. As a result, this performance indicates that an initial investment of $100,000 in the Fund would have a market value exceeding $838,000 (assuming distributions had been reinvested), or more than the same $100,000 would be worth had it been placed into a passive mutual fund tracking the Fund's benchmark (as well as the S&P 500) over the same time-period.

VALUE OF $100,000 SINCE SEPTEMBER 1998

As of March 31, 2024



Hypothetical Investment since September 30, 1998 (Fund Inception Date September 17, 1998). Past performance does not guarantee future performance results.

The long-term, value-oriented approach utilized over this span extends beyond the Real Estate strategy, however. The philosophy is shared across the broader investment team at Third Avenue Management ("Third Avenue" or "the Firm").

Performance is shown for the Third Avenue Real Estate Value Fund (Institutional Class). Past performance is no guarantee of future results; returns include reinvestment of all distributions. 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 U.S. Lipper Fund Award for Best Equity Small Fund Family is based on a review of 185 qualified fund management companies that were eligible for the three-year period ending on 11/30/23. To qualify for Lipper's Overall Small Fund Family Group Award, Small fund family groups must have at least three equity portfolios. The group award will be given to the group with the lowest average decile ranking of its respective asset class results based on the three-year Consistent Return measure of the eligible funds.

Notably, Third Avenue received recognition for this distinctive approach during the quarter, winning the *Best Equity Small-Size Fund Family Group Over Three Years at the 2024 United States LSEG Lipper Fund Awards*. The Fund Family Awards recognize Fund Companies that have excelled at delivering consistently strong risk-adjusted performance relative to their peers firmwide.

From Fund Management's perspective, this recognition represents Third Avenue's steadfast commitment to delivering superior long-term results to our clients. It also reinforces our view that an actively managed fund, backed by a sound strategy, robust process, and aligned portfolio management team, holds strong prospects to outperform over the long-term—the primary focus across the Third Avenue Value, Small-Cap, and Real Estate strategies.

ACTIVITY

In *The Coming Wave: AI, Power, and the 21st Century's Greatest Dilemma,* co-authors Mustafa Suleyman and Michael Bhaskar explore the possibilities of Artificial Intelligence ("AI"), synthetic biology, robotics, and the need to "contain" their rapid progress. While views on these matters vary greatly, Suleyman's insight is particularly sought after as he not only co-founded AI-pioneer DeepMind (which was purchased by Google in 2014) but was recently appointed as the CEO of Microsoft's AI division.

Within the work, readers are presented with several thought-provoking applications, as well as the rationale for proper oversight longer-term. However, the co-authors outline two near-term necessities arising from generative AI and the advancements in large-language models ("LLM"), including (i) an enormous amount of capital to build out the data centers to support the AI ecosystem and (ii) a "colossal" amount of power to operate this infrastructure. In fact, McKinsey & Company has put more concrete figures around these expectations more recently by estimating that data center demand will increase by 10% per year through 2030 and require 18 Gigawatts of incremental power—more than is utilized by the entire sector today.

Simultaneously, the available supply of data center space has declined to near record-low levels as some of the household names in the technology space (i.e., Amazon, Microsoft, Google, Oracle, et al) have leased capacity in conjunction with the expansion of their hyperscale computing and "cloud offerings". As a result, vacancy rates for data centers in the top markets within the U.S. had declined to approximately 3.0% at the end of 2023, per Green Street Advisors, while rental rates (as measured by the revenue paid per available foot excluding power costs) have increased by more than 10% over the past year.

In combination, these shifts seemingly form one of the most compelling narratives in the broader real estate space. However, the Fund does not have any direct investments in "pure play" data center Real Estate Investment Trusts ("REITs") at this time. While such a posture may seem counterintuitive, it is driven by a more cautious stance relating to the supply-demand dynamic over the medium-term with the amount of construction approaching 40% of existing stock in "primary U.S. markets" per JLL Research. In addition, Fund Management is cognizant of the (i) ongoing maintenance costs and impact on long-term profitability, (ii) threat of obsolescence risk as process automation evolves, and (iii) prevailing valuations with free cash flow[4] yields estimated at 2.5% at the end of the quarter, on average, implying a "payback period" of many decades.

That is not to say the Third Avenue Real Estate Value Fund has been left out of the data center revolution. Instead, the Fund is simply exposed to other parts of the value chain, which offer a vastly different fundamental proposition in Fund Management's view, including:

- **Powered-Shells:** In certain cases, data centers are leased as "powered-shells" whereby the property owner delivers the building and required power needs to a data-center operator under a long-term lease. The operator is then responsible for the interior fit-out, leasing, and power costs of the facility. For instance, the Fund's long-time holding **Segro plc** (the largest owner of industrial and logistics properties in the UK and continental Europe) controls the Slough Trading Estate in West London, where several industrial facilities have been converted to data centers, now forming the second largest cluster globally. Unlike the data center REITs however, Segro limits the "capital at risk" while still capturing premium rents for the attributes of this location relative to alternative uses.

- **Higher-and-Better-Use Opportunities:** As the location of data centers disperse from key hubs given the reduced emphasis on connectivity for LLM-centric facilities and greater focus on power access, other real estate owners are increasingly finding higher-and-better-use ("HBU") opportunities by repositioning locations to accommodate data center development. For instance, Fund holding **Prologis** (the largest owner of industrial and logistics properties globally) has identified approximately 60 locations within its portfolio suitable for hyperscale development—20 of which Prologis expects to commence build-to-suit projects in the next three years. The same can be said for **Five Point Holdings** (the leading land developer in coastal California), which sold a 42-acre land parcel in Orange County intended for a data processing hub last year. In this case, the land sale realized approximately $240 million of gross proceeds, implying more than $5 million per acre.

- **Data Center Services:** As data centers have evolved into a distinct sub-set of many real estate mandates, the services provided for “more traditional” property types have expanded into this niche sector. As a result, some of the leading real estate services companies (including Fund holdings CBRE Group, JLL, and Savills plc) have dedicated teams with the capabilities to support facilities management, leasing, advisory, investment sales, and other solutions. Such activity requires limited capital investment but can generate meaningful recurring revenues and transactional fees. For example, **CBRE** manages approximately 700 data centers globally and has advised on more than $6.0 billion of data center transactions.

- **Energy Solutions:** As McKinsey & Company has noted, “the use of renewable energy is a critical component of the hyperscalers’ strategy” and “to reach carbon-free energy goals, data center owners are signing power purchase agreements with suppliers of renewable energy.” Very few enterprises seem better positioned to capitalize on this shift than Fund holding **Brookfield Corp.** Put otherwise, the company controls one of the largest portfolios of renewable power globally through its power subsidiary (Brookfield Renewable) with approximately 3.3 Gigawatts of very strategic hydro, solar, wind, and on-site generation facilities. Although the company has already assembled one of the larger network-dense data center portfolios globally through its Infrastructure subsidiary, it seems likely that Brookfield will increasingly enter into Preferred Purchase Agreements (“PPA’s”) with other data center operators as they secure renewable power sources, often at premium prices.

Even with these exposures, Fund Management intends to closely monitor the evolving landscape for other related opportunities—while factoring in an adequate margin-of-safety given the rapid changes often associated with such swift adoption (e.g., “5G”). In the meantime, Fund Management continues to find very compelling opportunities in niche residential platforms that seem quite durable in nature. Along these lines, the Fund added to its holdings in the common stock of Sun Communities, Inc. (“Sun Communities” or “Sun”) and Grainger plc (“Grainger”) during the quarter.

Sun Communities is a U.S.-based REIT that is the largest single owner of Manufactured Housing (“MH”) and Recreational Vehicle (“RV”) communities in North America. The company is also the single largest owner of coastal marinas in the U.S. through its wholly owned Safe Harbor subsidiary. Whereas **Grainger** is a UK-based real estate operating company (“REOC”) that is the leading owner, manager, and developer of multi-family properties in the UK—where the multi-family business is coined the private-rental sector or “PRS”. The company also controls one of the largest PRS pipelines, with plans to add 5,600 additional units through 2027.

While Sun and Grainger operate in different jurisdictions, they share several key attributes. For instance, both companies are well-capitalized, and control hard-to-replicate platforms focused on affordable segments of the residential markets. In addition, these portfolios are concentrated in regions that have experienced significant population growth more recently. Further, each company has value-enhancing initiatives in place, including site conversions (Sun) and targeted development (Grainger). However, both companies seem to trade at discounted valuations relative to conservative estimates of Net-Asset Value (“NAV”) for temporary reasons.

In Sun’s case, it seems to have fallen out-of-favor alongside its expansion into international markets; however, the company has swiftly acted upon a “return to core” strategy with the potential to take further actions to streamline its portfolio and surface value (e.g., disposition of Park Holidays, positioning Safe Harbor for sector consolidation, et al). On the other hand, Grainger plans to convert to a REIT during 2025. Such a move will likely introduce a wider set of potential investors at an interesting time as the company’s profits are expected to reset in conjunction with the lease-up of its existing assets and pipeline. In the meantime, both Sun and Grainger are experiencing sector-leading fundamentals within their core portfolios, with same-property revenues having increased by high single-digits on a year-over-year basis—with a near-equal increase in NAV over the same period, by Fund Management’s estimates.

In addition to increasing these positions, which collectively account for 7.1% of invested capital, the Fund also received special dividends from its U.S.-based timber holdings (Weyerhaeuser and Rayonier) and sold its position in Five Point Senior Unsecured Notes after participating in an exchange offer during the period. The Fund also reduced its positions in Wharf Holdings and Segro plc, exited InvenTrust Properties, and extended out its hedge related to the Fund’s Hong Kong Dollar exposure during the quarter.

POSITIONING

After factoring in the most recent activity, the Fund had approximately 41.5% of its capital invested in **Residential Real Estate** companies with strong ties to the U.S. and U.K. residential markets—where supply deficits remain after years of under-building. Together with near record-low inventory levels and a recent surge in immigration, there also remains significant demand for single-family product at affordable price points (both for-sale and for-rent). Therefore, these Fund holdings seem positioned to benefit from a multi-year recovery in residential construction and ancillary activities, particularly as mortgage rates further subside. At the end of the quarter, these holdings included a diversified set of businesses including homebuilding (Lennar Corp. and D.R. Horton), timberland ownership and management (Weyerhaeuser and Rayonier), planned development (Berkeley Group and Five Point Holdings), niche rental platforms (AMH, Grainger plc, Sun Communities, and Ingenia Communities), as well as other ancillary businesses (Lowe's and Trinity Place Holdings).

The Fund also had 34.5% of its capital invested in **Commercial Real Estate** enterprises that are involved with select segments of the property markets. At the current time, these holdings are primarily focused on companies capitalizing on secular trends, including structural changes driving more demand for industrial properties, self-storage facilities, and last-mile fulfillment (Prologis, U-Haul, Segro plc, First Industrial, Big Yellow, and National Storage) as well as more diversified businesses engaged in "long-term wealth creation" (Brookfield, CK Asset Holdings, and Wharf Holdings). In Fund Management's view, each of these enterprises is very well-capitalized, their securities trade at discounts to private-market values, and they seem capable of providing compelling "real" returns—primarily by increasing rents, undertaking development activities, and by making opportunistic acquisitions.

An additional 20.9% of the Fund's capital is invested in companies engaged in **Real Estate Services.** These real estate-related businesses are generally less capital-intensive than direct property ownership and have historically offered much higher returns on capital over the course of a cycle—provided they have favorable positioning within their respective segments. At the present time, these holdings include franchises involved with brokerage and property management (CBRE Group, Savills plc, and JLL), investment management (Brookfield Asset Management), as well as mortgage and title insurance (FNF Group, Freddie Mac, and Fannie Mae).

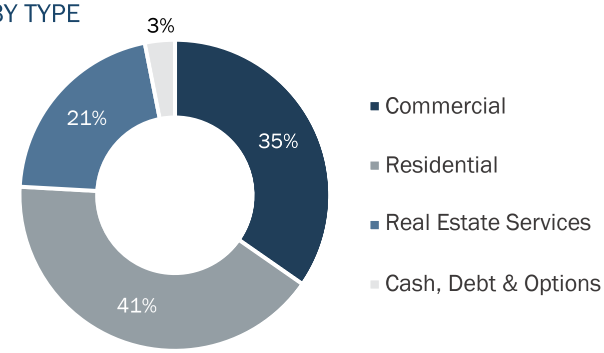
The remaining 3.1% of the Fund's capital is in **Cash, Debt & Options.** These holdings include U.S.-dollar based cash and equivalents, short-term Treasuries, and hedges relating to certain foreign currency exposures (Hong Kong Dollar).

The Fund's allocations across these various business types are outlined in the chart below, along with the exposure by geography (North America, Europe, and Asia-Pacific).

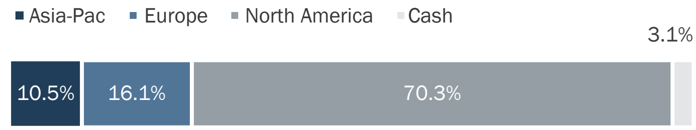
ASSET ALLOCATION

As of March 31, 2024 | Source: Company Reports, Bloomberg

BY TYPE



BY REGION



FUND COMMENTARY

During the quarter, Morningstar reported that the amount of capital invested in "passively managed" U.S. Mutual Funds and Exchange-Traded Funds ("ETFs") exceeded the amount invested in "actively managed" U.S. Mutual Funds and ETFs for the first time. The turning point spurred a great deal of attention and associated media. Notwithstanding, there was another Morningstar report published in the quarter that also received significant interest: *Active Vs. Passive Funds by Investment Category – What are the odds of succeeding with active funds vs. passive funds?*

Within the analysis, Morningstar concluded that "less than half" of actively managed strategies outperformed the passive options within their categories for the 2023 calendar year—with the lowest "success rate" in actively managed large-cap equity funds. In contrast, Morningstar noted that (i) 55% of actively managed real estate funds outperformed their passive peers in 2023 and (ii) more than half of actively managed real estate funds outperformed passive strategies over the past decade, leaving it as "the only category group whose 10-year success ratio exceeds 50%".

Despite this support for an actively managed approach within real estate securities, fund flows to real estate mutual funds and ETFs ("listed real estate") have followed broader market trends, favoring passive strategies over actively managed funds in recent years. In fact, it is estimated that approximately 55% of the capital invested in real estate-dedicated strategies was allocated to passively managed funds at year-end, with the Vanguard Real Estate ETF ("VNQ") accounting for the largest single strategy (active or passive).

There is no denying that the fees on most passive strategies (including the VNQ) are lower than most active strategies (including the Real Estate Value Fund). However, the total expense ratio only represents one factor in the potential return equation. In our opinion, diligent capital allocators also consider portfolio composition, as well as identify other factors that could lead to a divergence in the performance of an actively managed strategy relative to a passive fund.

To the extent that one was evaluating the Third Avenue Real Estate Value Fund with such a mindset, Fund Management would note the emphasis on the following four items as it relates to portfolio composition:

1. **Real Estate Operating Companies:** The Fund favors REOCs as opposed to REITs since REOCs can retain their cash flow to reinvest in the business and self-finance further expansion. On the other hand, REITs are required to distribute most of their earnings as dividends, thus leaving them more dependent upon the capital markets to grow. At the end of the most recent quarter, approximately 71% of the Fund's capital was comprised of REOCs versus only 9% for the VNQ. Further, the dividend payout ratio for the Fund's holdings was less than half of that for the VNQ constituents, on average, at the end of the same period.

2. **Selective Exposures:** Third Avenue's flexible mandate allows the Fund to (i) invest in a wider set of businesses including some of the premier commercial, residential, and service platforms in both the U.S. and international markets as well as (ii) sidestep certain companies, sectors, or regions that seem to be facing secular challenges or trade at elevated multiples. As a result, the Fund has approximately two-thirds of its capital invested in structurally supported residential and real estate services businesses, whereas the VNQ has less than 20% of its capital invested in such businesses. The remaining one-third of the Fund's exposure is comprised of very select areas of the commercial real estate markets, without any direct exposure to data center or cell tower REITs, which accounted for more than 21% of the VNQ at quarter-end.

3. **Well-Capitalized Issuers:** The Fund's capital is concentrated in issuers that not only own high-quality assets, but ones that are financed with modest amounts of leverage. From our experience, well-financed businesses such as these can not only navigate through more challenging markets, thus preserving value, but are also positioned to make value-enhancing investments when capital is scarce, thereby emerging more valuable. For perspective, the average loan-to-value ratio for the portfolio holdings was less than 20%, on average, at the end of the quarter. In addition, the equity investments in the Fund had leverage levels that were 40% less than the VNQ constituents, on average, as measured by the total debt to assets ratio at the end of the same period.

4. **Discounted Valuations**: With a long-term, value-oriented approach, the capital in the Fund is focused in the securities of businesses that seem to be trading at modest valuations relative to their private-market values or corporate net worth. For instance, the portfolio was trading at a 12% discount to our conservative estimates of NAV at quarter-end, when viewed in the aggregate. Put otherwise, the price-to-book ratio for the equity holdings in the Fund was 1.3 times at quarter-end, on average, relative to the VNQ constituents at 2.4 times, on average.

A diligent assessment of an active strategy would also consider certain qualitative aspects of the team and process. In that regard, Fund Management would note that the dedicated Real Estate team at Third Avenue has more than two decades of experience in listed real estate, on average, and follows a robust (and repeatable) process that has been developed over the past 15 years. The Portfolio Management team also has significant personal capital invested in the strategy, aligning interests with other Fund investors, without competing strategies to market or manage.

Fund Management recognizes that all of these items cannot be measured in one single line item. However, we believe that when they are assessed with the portfolio attributes outlined above, they are factors that increase the odds of succeeding—leaving the Third Avenue Real Estate Value Fund as an actively managed strategy that should be considered as part of any listed real estate allocation in the period ahead.

We thank you for your continued support and look forward to writing to you again at the end of the next quarter. In the meantime, please don't hesitate to contact us with any questions or comments at realestate@thirdave.com.

Sincerely,

The Third Avenue Real Estate Value Team

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, 2024 (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 11, 2024

[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] S&P 500 Index, or Standard & Poor's 500 Index, is a market-capitalization-weighted index of 500 leading publicly traded companies in the U.S.

[3] A government-sponsored enterprise (GSE) is a quasi-governmental entity established to enhance the flow of credit to specific sectors of the U.S. economy.

[4] Cash flow: Cash flow is the after-tax earnings plus depreciation that functions as a measure of a firm's financial strength" (Source: Investopedia)

FUND PERFORMANCE

	3Mo	1Yr	Annualized 3Yr	5Yr	10Yr	Inception	Inception Date
Third Ave Real Estate Value Fund (Inst. Class)	2.81%	24.26%	3.16%	3.13%	3.73%	8.68%	9/17/1998
Third Ave Real Estate Value Fund (Inv. Class)	2.78%	23.93%	2.90%	2.86%	3.47%	6.37%	12/31/2009
Third Ave Real Estate Value Fund (Z Class)	2.82%	24.33%	3.26%	3.22%	N/A	1.99%	3/1/2018

TOP TEN HOLDINGS

Lennar Corp.	7.0%
Brookfield Corp.	6.3%
D.R. Horton, Inc.	6.1%
U-Haul Holding Co.	6.1%
CBRE Group Inc.	5.4%
Prologis, Inc.	4.6%
Weyerhaeuser Co.	4.1%
American Homes 4 Rent	3.8%
Berkeley Group Holdings PLC	3.6%
Rayonier, Inc.	3.4%
TOTAL	**50.4%**

Allocations are subject to change without notice

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 1.19%, 1.45% and 1.11%, respectively, as of March 1, 2024.

Distributions and yields are subject to change and are not guaranteed.

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.

The fund's investment objectives, risks, charges, and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling 800-443-1021 or visiting www.thirdave.com. Read it carefully before investing.

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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MANAGEMENT

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