



THIRD AVENUE MANAGEMENT

Understanding Cost Basis Reporting

The Emergency Economic Stabilization Act of 2008 generally requires mutual fund transfer agents to provide cost basis and holding period reporting to both the Internal Revenue Service (IRS) and shareholders for sales (including redemptions) or exchanges of mutual fund shares that are acquired on or after January 1, 2012. This information will generally be reported on Form 1099-B.

In conjunction with the cost basis reporting initiative the IRS introduced Form 8949 – Sales or Other Dispositions of Capital Assets. You may need to use this Form as well as Form 1040, Schedule D to report any sales (including redemptions) or exchanges of mutual fund shares. You should consult your tax adviser.

Frequently Asked Questions

Q. What is cost basis?

A. Cost basis is an amount that is used to calculate capital gain or loss for tax purposes on the sale (including redemption) or exchange of shares. In many instances your cost basis will be your original purchase price for your shares, including commissions and expenses if applicable.

Q. Who is subject to cost basis reporting?

A. Accounts registered to individuals, joint accounts, Uniform Gift and Transfers to Minors accounts, trust accounts, partnership accounts and S-corporation accounts are generally subject to cost basis reporting with respect to their covered securities. These accounts are referred to as eligible accounts. Accounts owned by C-corporations and tax deferred/retirement accounts will generally not be subject to cost basis reporting.

Q. What shares will be subject to cost basis reporting? What are covered and noncovered securities?

A. Only covered securities held in eligible accounts are subject to cost basis reporting. Mutual fund shares purchased on or after January 1, 2012 are generally treated as covered securities. Mutual fund shares acquired prior to January 1, 2012 or shares transferred into an account with an unknown cost basis are generally noncovered securities. Cost basis reporting is generally not required for noncovered securities. You will still need to keep track of your cost basis for noncovered securities and you will need to report any gain or loss from the sale of both covered and noncovered securities on your tax return.

Q. How will cost basis be reported?

A. Cost basis with respect to your covered securities will be reported both to you and to the IRS on Form 1099-B. Form 1099-B has historically been used to report gross proceeds from the sale of shares. Beginning with the 2012 tax year, your Form 1099-B will also provide you and the IRS with cost basis and holding period (short term versus long term) information with respect to covered mutual fund shares. Gross proceeds from the sale or exchange of noncovered securities will continue to be reported both to you and to the IRS on Form 1099-B.

Cost basis and holding period information with respect to noncovered securities may be reported to you on Form 1099-B if our transfer agent has complete and accurate records, however such information will not be reported to the IRS. If you own your Third Avenue shares directly (not through a broker or other intermediary) the cost basis for noncovered securities was computed by our transfer agent using the average cost method. For this purpose, the average cost of noncovered securities was generally determined by taking the cumulative tax basis of noncovered securities purchased in the account up to and including December 31, 2011 and dividing by the number of such shares. The cost basis information



THIRD AVENUE MANAGEMENT

included on Form 1099-B with respect to noncovered securities may differ from the cost basis determined by you under the cost basis method that you use to compute the cost basis for these securities. You should consult your tax adviser.

Q. What cost basis methods does Third Avenue Funds offer?

A. Third Avenue Funds offers the following four cost basis methods for covered securities.

FIFO (First In, First Out) - The oldest shares purchased are treated as the first shares sold in order to determine the tax basis and holding period of the shares which are sold. Third Avenue Funds has selected FIFO as the Funds' default method.

AC (Average Cost) - The tax basis of any covered securities sold is determined by taking the cumulative tax basis of covered securities and dividing by the number of covered securities in the account. The average cost of noncovered securities is calculated separately and is not reported to the IRS. For purposes of determining holding period and whether sales are from covered or noncovered securities, the oldest shares purchased are treated as the first shares sold.

LIFO (Last In, First Out) - The most recent shares purchased are treated as the first shares sold in order to determine the tax basis and holding period of the shares which are sold.

Specific Lot Depletion (also known as Specific Identification) - You will be required to specify the particular shares (e.g., purchase date, per share cost basis) to be sold at the time of such sale, but no later than the settlement date. This method gives you more control over the amount of gain or loss to be recognized and whether gain or loss will be short term or long term. If you elect the Specific Lot Depletion method and do not properly specify the particular shares to be sold for a particular transaction, the FIFO method, which is the Funds' default method, will be applied in determining which shares were sold in that transaction. Specific Lot Depletion may not be appropriate if your shares are part of a Systematic Withdrawal Plan or similar plan.

Q. What if I do not choose a method for covered securities?

A. The First In, First Out ("FIFO") method will be applied if you do not properly elect another permitted method. The new law requires mutual funds to select a default method which will be used if the shareholder does not provide their choice of a cost basis method. The Third Avenue Funds have chosen the First In, First Out ("FIFO") method as their default method. FIFO was selected as the Funds' default method both because it provides simple tracking of the shares and because it may provide greater flexibility to shareholders that may wish to change to another method.

Q. What if I wish to change to another method?

A. Subject to the following restrictions, you may generally change your cost basis method at any time, although the cost basis method in effect on the date of a particular sale, redemption or exchange of shares may generally not be changed with respect to such transaction after the settlement date of such transaction.

If the Average Cost method is being used with respect to covered securities, you will only be permitted to revoke this method retroactively up to the time when the first covered securities subject to the Average Cost method are sold. Under the IRS regulations, any revocation of the Average Cost method after that time may only be applied going forward for covered securities acquired in the future.



THIRD AVENUE MANAGEMENT

For example, assume that the Average Cost method is being used and you purchase one share of MF Mutual Fund ("MF") on January 1, 2012 at \$1, one share of MF on February 1, 2012 at \$2 and one share of MF on March 1, 2012 at \$3. Under the average cost method you will be treated as owning three shares of MF at a cost basis of \$2 per share (\$6 total cost divided by three shares). All shares would be covered securities since they were all purchased on or after January 1, 2012. If you redeem one share of MF on April 1, 2012 at a redemption price of \$5, your gain under the average cost method will be \$3 (\$5 redemption price less \$2 average cost basis) and you will be treated as having disposed of the share that was acquired on January 1, 2012, the oldest share purchased. You will be treated as continuing to hold two shares, one purchased on February 1, 2012 and one share purchased on March 1, 2012 and under the average cost method the basis of each share will be \$2. Once the first redemption is made you cannot undo the prior averaging by switching to another method. If you were to change from the average cost method to another method after the April 1, 2012 redemption, the basis of these two remaining shares would continue to be \$2 per share. The basis of any new shares acquired after your method had been changed would be determined under the new cost basis method.

Federal tax regulations generally require that any election to either adopt or revoke the Average Cost method for covered securities must be made in writing. Therefore, any future change to either adopt the Average Cost method or revoke the Average Cost method must be made by either mailing a letter of instruction to Third Avenue Funds or by making the change on our website (www.thirdave.com) at the "Access Your Account" link.

Otherwise you may generally change your election at any time by either mailing a letter of instruction to Third Avenue Funds, calling (800) 443-1021, or by making the change on our website (www.thirdave.com) at the "Access Your Account" link. Letters of instruction should be mailed to:

Third Avenue Funds
c/o BNY Mellon Investment Servicing (U.S.) Inc.
500 Ross Street, 154-0520
Pittsburgh, PA 15262

Q. What if I transfer mutual fund shares currently held by another broker or custodian into my Third Avenue Funds account? What if I transfer mutual fund shares currently held in my Third Avenue Funds account to another broker or custodian?

A. The transferring broker or custodian is generally required to provide a transfer statement to the receiving broker or custodian within 15 days of the transfer. The transfer statement should generally include cost basis and holding period information for transferred shares that were purchased on or after January 1, 2012. You should consult your tax adviser with regard to special rules which may apply with regard to shares acquired by gift or inheritance.

Q. What is a wash sale?

A. Under the wash sale rules any loss realized on a sale or other disposition of shares will generally be disallowed to the extent substantially identical shares are purchased, or received through reinvesting dividends and capital gains distributions in a Fund, within the 61-day period beginning 30 days before and ending 30 days after the date of the redemption. In such a case, the basis of the shares acquired will be increased to reflect the disallowed loss.

Certain wash sales involving covered securities will be required to be reported to you and to the IRS on Form 1099-B. Form 1099-B will generally report only those wash sales involving covered securities when the purchase and sale occur in the same account and when the shares have the same CUSIP number. You will still be required to comply with the actual wash sale rules which may involve transactions that are not required to be reported on Form 1099-B. For example, the actual wash sale rule applies to substantially identical shares whereas the



THIRD AVENUE
MANAGEMENT

reporting requirement encompasses shares that have the same CUSIP number. You should consult your tax adviser.

Q. Who do I contact if I have further questions?

A. You may contact one of our customer service representatives