



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. If you hold your Third Avenue Fund shares directly you may have received or can expect to receive a mailing from us which will include a cost basis election form. We recommend that you consult your tax adviser and request that you return the election form as soon as possible. If you hold shares of any of the Third Avenue Funds through a broker or other account, you may need to contact such broker with regard to your cost basis options.

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 shares. 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 non-covered shares?

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

Please note that the new law phased in the requirement for cost basis reporting. Certain equity securities of non-mutual fund entities that were acquired on or after January 1, 2011 may be subject to cost basis reporting. Therefore, if you have sold non-mutual fund securities in other accounts that were acquired on or after January 1, 2011, you may receive cost basis reporting with respect to such non-mutual fund shares on the 2011 Form 1099-B that is issued in early 2012. Mutual fund shares will generally not be subject to cost basis reporting unless they are acquired on or after January 1, 2012.

Q. How will cost basis be reported?

A. Cost basis with respect to your covered shares will be reported both to you and to the Internal Revenue Service on Form 1099-B. Your 2012 Form 1099-B will be mailed to you in the early part of 2013. 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 with cost basis and holding period (short term versus long term) information with respect to covered mutual fund shares. While gross proceeds from the sale or exchange of non-covered shares will continue to be reported on Form 1099-B, cost basis and holding period information for non-covered shares will not be reported on Form 1099-B.

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

A. Third Avenue Funds will offer the following four cost basis methods:

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 shares sold is determined by taking the cumulative tax basis of covered shares and dividing by the number of covered shares in the account. The average cost of non-covered shares is calculated separately and is not reported to the Internal Revenue Service. For purposes of determining holding period and whether sales are from covered or non-covered shares, 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?

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, you will only be permitted to revoke this method retroactively up to the time when the first covered shares 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 shares acquired in the future.

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 shares 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 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 mailing a letter of instruction to Third Avenue Funds. 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, option 1, 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
P.O. Box 9802
Providence, RI 02940-8002

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 shares 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 shares 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 cover 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 reporting requirement covers 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 at (800) 443-1021, option 1, Monday through Friday between 9:00 a.m. and 7:00 p.m. Eastern Time.

Please note that Third Avenue Funds does not provide tax advice and nothing herein should be construed as tax advice. We strongly urge you to consult your tax adviser so that he or she may properly advise you.