



Dear Fellow Shareholders,

We are pleased to provide you with the Third Avenue Small-Cap Value Fund's (the "Fund") report for the quarter ended January 31, 2016.

As we describe in our Value Fund letter this quarter, value investing - as defined by our philosophy of Creditworthiness, Compounding of Book Value and Buying at a Discount to Net Asset Value (NAV) - has been out of favor for the last several years. As value investors, we believe that stock prices do not always reflect the true value of the business, but over time a business that has the ability to invest in itself and compound growth in its book value will outperform and narrow the discount to its fair value. In the short term, stock prices are influenced by a host of factors including corporate news, monetary policy, and global macro events, all of which can have little long-term meaning for our determination of NAV. While we understand the near-term market fears over macro events like the spot market value of oil or the debate around China's slowing growth rate, in our view this fear and uncertainty in the short term creates an opportunity to buy strong businesses at a significant discount to their three to five year fair value.

Even good businesses face economic headwinds, but there is a large distinction between short-term headwinds that may pressure near-term earnings per share and broken or failing business models. Our Chairman, Marty Whitman, has written extensively about the pitfalls of an investment approach founded on the primacy of the income statement. We think the focus on near-term earnings moves as the primary driver for investment decisions by market participants in general has reached extreme levels, and from our perspective is creating many interesting investment opportunities. The current obsession with near-term earnings momentum is not a lasting substitute for our disciplined approach, i.e., the measurement of the earnings ability of businesses' assets that begins with the balance sheet. Thus, despite the past headwinds of value as a style, we firmly believe that it is not "different this time". Indeed, we are excited about the discounts we see in many companies in the market, including those in the Third Avenue Small-Cap Value Fund that have been pressured, and look to initiate or increase our weightings in several oversold names.

Performance

In spite of the challenging market environment, the Fund outperformed its benchmark by 109 basis points for 2015. The Fund returned -6.37% and the Russell 2000 Value Index returned -7.46% during 2015.

1 The Fund's Institutional share class one year, five year and ten year average annual returns for the period ended January 31, 2016 were -7.71%, 5.51% and 3.19%, respectively. The Fund's Institutional share class one year, five year and ten year average annual returns for the period ended December 31, 2015 were -6.66%, 7.18. and 4.29%, respectively. 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. The Fund's total operating expense ratio, gross of any fee waivers or expense reimbursements, was 1.13%, as of October 31, 2015. Risks that could negatively impact returns include: fluctuations in currencies versus the US dollar, political/social/economic instability in foreign countries where Fund invests, lack of diversification, volatility associated with investing in small-cap securities, and adverse general market conditions. Prospectuses contain more complete information on management fees, distribution charges, and other expenses. Please read the Prospectus carefully before investing or sending money. For current Fund performance or a copy of the Prospectus please visit our website: www.thirdave.com or call 800-443-1021. M.J. Whitman LLC, Distributor. Member FINRA/SIPC.

Portfolio holdings are subject to change without notice. The following is a list of Third Avenue Small-Cap Value Fund's 10 largest issuers, and the percentage of the total net assets each represented, as of January 31, 2016: FTI Consulting, Inc., 2.67%; Commerce Bancshares, Inc., 2.59%; WCI Communities, Inc., 2.56%; UMB Financial Corp., 2.50%; Alamo Group, Inc. 2.45%; DSW, Inc., 2.41%; Tetra Tech, Inc., 2.39%; Insight Enterprises, Inc., 2.35%; Kaiser Aluminum Corp., 2.34%; Genpact, Ltd., 2.33%

For the fiscal quarter ending January 31, 2016, the Fund returned -9.52%, slightly underperforming the Russell 2000 Value Index which was down -9.12%. We discuss largest contributors and detractors next.

Contributors

Alamo Group

Alamo Group's principal activity is to manufacture, distribute and service equipment for right-of-way maintenance and agriculture. Alamo Group was a strong relative performer for the Fund during the quarter after posting solid results for its third quarter against a backdrop of low investor expectations centered mostly on larger agriculture and mining markets where Alamo does not compete. Bucking the trend seen in other companies exposed to agricultural end markets, Alamo's industrial mowing equipment business was resilient and the company reported organic growth and expanded margins, driving profits higher than last year. Alamo also reported a record backlog further reflecting the recovery in the budgets of its municipal customers and the less cyclical, more maintenance nature of much of its product line.

Vail Resorts

Vail is the largest publically-traded ski resort company. It owns and operates some of the top ski resorts in the US, including Vail, Beaver Creek, Breckenridge, and Keystone. The company also manages a portfolio of luxury hotels as well as a real estate development company. Due to the world-class nature of its ski resorts, Vail counts 12% of all skiers in the US as customers, despite operating only 11 out of some 620 existing resorts in the country.

As a ski resort company, of course snowfall drives traffic and season pass sales, but management has been every effective in leveraging its franchise to create comprehensive vacation destinations and develop customer loyalty. To diversify geographical coverage, extend its operational expertise and grow earnings power, the company buys and improves less well managed resorts. The most recent acquisitions were Park City in Utah, Perisher, the largest ski resort in Australia, and Wilmot Mountain near Chicago.

Business has been improving. For the past year, season pass sales were up 13% in units. EBITDA should continue to grow from the addition of new assets as well as management's efforts to increase the usage of the resorts during the off-season.

CSG Systems

CSGS is a premier provider of customer support functions for the cable industry. It manages a full suite of customer service functions, starting from initial activation of accounts to service changes to bill presentment and collection, and receivables management. Through its platform, the company extends its capabilities to adjacent markets such as telecommunication and media and international. As entertainment and communication converge and distribution thus becomes more disintermediated due to digitalization, media distributors are outsourcing more of their customer management, billing and collection to specialists such as CSGS. Based on its existing large investment in software and personnel training, CSGS can process complex, high volume transactions and at the same time provide the human support that enhances customer experience that is so crucial in brand building. Its three largest customers, Comcast, DISH and Time Warner, account for 24%, 14% and 12%, respectively, of total revenue.

Detractors

Interfor

Shares of Vancouver, Canada based Interfor Corporation, which harvests timber and markets lumber products for North American residential and commercial construction markets, was the top detractor of performance for the quarter. Despite its Canadian headquarters, over 64% of Interfor's lumber board feet are sourced in the US. Moreover, a full two-thirds of this is from the US South, where Interfor has spent \$400 million since 2013 to build a clustered presence.

Shares sold off as log prices softened into 3Q15 earnings due to weaker than expected US housing starts and fears of weaker log exports to China, although these account for a small portion of Interfor sales. We believe the outlook for Interfor remains strong based on i) accelerating US housing starts, ii) stronger free cash flow in 2016 which will be applied to deleveraging now that the Castlegar new build facility is complete, and iii) a \$50 million profit improvement target over 2015 and 2016 including \$10 million in Castlegar income, \$35 million in US South restructuring savings and \$5 million corporate wide best practice savings.

Anixter

Anixter (AXE) is a value-added distributor of data cables, security products, as well as low-voltage and high voltage electrical wires. It sells some 500,000 different SKUs sourced from thousands of manufacturers. Manufacturers rely on Anixter to reach target customers and the customers depend on Anixter to evaluate and test appropriate products for their particular needs. In a very general sense, Anixter's business model is similar to that of a broker, earning a relatively stable gross margin, without assuming inventory or obsolescence risks. Since most product costs are passed through, gross profit serves as a revenue base to cover the operational expenses such as the company's 230 warehouses and some 3,000 person salesforce.

Over the last few months, investors sold off AXE shares due to weaker economic conditions. Spending on nonresidential construction, oil and gas, and general capital expenditures all have slowed down. The stronger US dollar also weakens foreign sales as well as causing negative financial translation. We see these pressures as transitory and likely abating over 2016. Moreover, we see a long-term visible path to cost reduction and deleveraging spurred by acquisition integration and internal cost controls, which should leverage the benefit of recovering revenue growth.

SemGroup Corp.

Shares of SemGroup Corp. declined as investors sold down the Master Limited Partner (MLP) group aggressively. SemGroup is a midstream transportation company that owns the General Partner stake in MLP Rose Rock Partners. Specific worries regarding SemGroup stem from its midstream exposure to independent E&P companies who may cut production or seek pipeline rate reductions. Also, investors worried about the potential competition for SemGroup's White Cliffs pipeline serving the Denver-Julesburg basin. While there is potential for production softness and rate pressure if oil prices remain at current low levels, we feel the market is overlooking the power of SemGroup's in place assets.

The midstream fractionation assets will be required for any E&P production and thus will have solid negotiating power, and similarly, the White Cliffs pipeline has excess capacity that can be marketed to be competitive with new entrants and thus serve as a deterrent to irresponsible capital expansion by peers.

Apart from these fears, the market is overlooking the new asset growth of SemGroup, including the Maurepas pipeline which will begin service this year and add roughly \$63 million in EBITDA. Finally, SemGroup is well capitalized with over \$1 billion in available capacity on its revolver, has no need to access the capital markets for growth projects and has the ability to monetize non-core assets in SemMexico or SemLogistics to further strengthen the balance sheet; as such we see the shares as oversold at current levels.

Portfolio Activity

Market weakness, especially when it is driven by macro factors, has little or nothing to do with a company's fundamentals. These are the environments in which we find some of the most attractive investment opportunities. During the quarter we increased the position size in a number of names already in the portfolio, in which we have strong conviction. We review them below.

Visteon

During the quarter, as part of its capital return program related to the sale of its stake in its climate control business last year, Visteon made a \$1.75 billion special cash distribution to shareholders (\$43.40 per share). The Board also authorized a \$500 million share repurchase program, which is in addition to the \$500 million repurchased last year. Post these actions, the company is still well-financed, with net cash on its balance sheet. We used some of the proceeds we received from the distribution to increase our position in Visteon common as the shares continued to trade at a material discount to our estimated NAV. Since focusing on being a standalone automotive electronics company, centered on cockpit electronics, Visteon has been successful in re-winning and winning new business, reducing costs and showing margin improvement. We believe Visteon is well-positioned to participate in the growing connected car market.

Multi-Color Corporation

During the quarter we increased our investment in Multi-Color Corporation, a leading label company, after a significant decline in share prices following quarterly results short of Street estimates. While we are attracted to the unusual stability of Multi-Color's business, we were encouraged by management's proactive decision to exit a modest amount of low-margin business during the quarter and continue to view the company as a very high-quality compounder at an attractive valuation. With a very fragmented label industry around the world and Multi-Color's strong cash flows and stellar management team, the company remains very well-positioned to continue growing organically and inorganically across the globe.

Insight Enterprises

Insight Enterprises is a value added reseller and servicer of hardware and software. The company assists large corporations, and state and federal governments on Information Technology issues such as designs and implementation of networking, data storage practices, disaster recovery, and hardware and software technologies. It distributes products from large vendors such as Cisco, Dell, Hewlett Packard, Apple and Microsoft, selling everything from tablets to network servers to software licensing. While distribution is a thin margin business, transactions are not based solely on price. The “value-added” characteristic requires the gaining of confidence from technology vendors to be an approved seller as well as from the IT professionals at the clients to be on the first-call basis. This relationship erects barriers to entry and creates recurring sales.

Technology is an ever changing industry. Products and software change, get upgraded, or replaced with new standards. Insight should benefit from growing trends in mobile devices and computing infrastructure moving into the cloud. The company continues to operate well, generating about \$75 million free cash flow per year, or about 9.6% of its market value.

In closing, we would like to touch on the recent news items regarding Third Avenue. It is important to note that the Small-Cap Value Fund owns only equity securities, does not own any debt-related instruments and has no overlapping ownership positions with the Focused Credit Fund. We refer you to our Management Committee’s letter which discusses events regarding the Focused Credit Fund and importantly the capital strength and durability of Third Avenue as a firm.²

As your Small-Cap Value Fund managers, we greatly appreciate the trust you have placed with us to safeguard and grow your assets. We remain highly motivated and focused on outperformance over time, and we have a significant portion of our wealth invested alongside you in the Fund. We are fully confident in our, and Third Avenue’s, long-term philosophy and in our short-, medium- and long-term ability to deliver on the process and execution of this philosophy.

We thank you for your trust and support.

Sincerely,

The Third Avenue Small-Cap Value Team

Chip Rewey, Lead Portfolio Manager

Tim Bui, Portfolio Manager

²Please see the Third Avenue Management Committee’s letter to Shareholders dated December 23, 2015 available on our website <http://thirdave.com/commentary/a-letter-from-the-management-committee/>

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Third Avenue Funds are offered by prospectus only. Prospectuses contain more complete information on advisory fees, distribution charges, and other expenses and should be read carefully before investing or sending money. Please read the prospectus and carefully consider investment objectives, risks, charges and expenses before you send money. Past performance is no guarantee of future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than original cost.

If you should have any questions, please call 1-800-443-1021, or visit our web site at: www.thirdave.com, for the most recent month-end performance data or a copy of the Funds' prospectus. Current performance results may be lower or higher than performance numbers quoted in certain letters to shareholders.

M.J. Whitman LLC, Distributor. Date of first use of portfolio manager commentary: 2/19/2016

About Third Avenue Management

Third Avenue Management LLC is a New York-based global asset manager that has adhered to a proven value investment philosophy since its founding in 1986. Third Avenue's disciplined approach seeks to maximize long-term, risk-adjusted returns by focusing on corporate financial stability, and price conscious, opportunistic security selection throughout the capital structure.

If you would like further information about Third Avenue Funds, please contact your relationship manager or email clientservice@thirdave.com



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