THIRD AVENUE
MANAGEMENT

THIRD AVENUE SMALL-CAP VALUE FUND

Portfolio Manager Commentary

INSTITUTIONAL: TASCX | INVESTOR: TVSVX

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Dear Fellow Shareholders:

We are pleased to provide you with the report of the Third Avenue Small-Cap Value Fund (the "Fund") for the quarter ended April 30, 2016.

OVERVIEW

Making the Most of Market Movements without Losing Focus

This quarter was a very active one for the Fund. As noted in the Value Fund letter, volatility reigned supreme. We took advantage of the market's mood swings by initiating six new positions and increasing our exposure in a number of existing holdings. For long-term investors, periods of volatility provide the opportunity to increase our position sizes in line with our discipline of being a patient buyer, as long as our investment theses remain intact. Of the new positions, four are represented in our primary benchmark, the Russell 2000 Value index, and two are outside this benchmark. The Fund continues to be concentrated and unique in relation to this benchmark. The Fund's active share at April 30, 2016 was 95.4%[1]. It held 64 total names, with 50.9% of total equity weight not included in the benchmark.

FUND ACTIVITY AND PERFORMANCE

Profitable Quarter Aided by a Buyout Offer

The Third Avenue Small Cap Value Fund returned 12.12% in the fiscal second quarter of 2016[2], 80 basis points ahead of the Russell 2000 Value Index at 11.33%. The top contributors to performance were Ingram Micro (IM), Dorman Products Inc. (DORM) and VCA Antech Inc. (WOOF).

Ingram, a distributor of IT products and services, agreed to be acquired in an all-cash transaction by Tianjin Tianhai Investment Co., part of HNA Group of China, for $6 billion ($38.90 per share), a premium of about 39% over the prior 30 days' average prices. We view the transaction value, which implies a multiple of about 10.2x EBIT and a 50% premium to book value, as very attractive. The deal is expected to be completed in the second half of 2016, subject to the receipt of regulatory and shareholder approvals.

Dorman, a supplier of automotive aftermarket parts, benefitted from favorable industry fundamentals driven by lower fuel prices, rising miles driven and an aging vehicle fleet. VCA, which provides veterinary care services, continues to execute well operationally.

The main detractor to performance was WCI Communities (WCIC), a Florida homebuilder targeting move up, second home and active retirement home buyers. Orders were a bit weak in the quarter. However, we believe the longer-term fundamentals for WCI remain positive given its attractive land portfolio, job growth in Florida and a rising retirement-age demographic that plays well to WCI's target market.

NEW POSITIONS

Range of New Companies Added

Cambrex Corp. (CBM) We took advantage of the February sell off in the market to acquire shares of Cambrex at around $38 per share, an attractive discount to our estimate of NAV. We see the combination of a strong balance sheet and a healthy revenue outlook as supportive for book value growth to continue, given the dynamics of Cambrex's business.

Cambrex is a well-financed specialty chemical company focused on life sciences; it develops and commercializes active pharmaceutical ingredients (APIs). Cambrex also produces Generic APIs, Controlled Substance APIs and is expanding into finished-dosage generic API manufacturing. Cambrex's API business is unique in that it manufactures the active ingredient in several leading pharmaceuticals and serves as a supplier to various drug companies. As such, it generates revenues from volumes sold and not price per finished pill. Cambrex's customers focus not only on product purity but also on quality, consistency and documentation of the manufacturing process as competitive attributes.

Several long-term drivers support revenue growth for Cambrex.

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 April 30, 2016: FTI Consulting, Inc. 3.09%; Commerce Bancshares, Inc. 2.87%; UMB Financial Corp., 2.73%; VCA, Inc., 2.52%; Multi-Color Corp., 2.52%; ICF International Inc., 2.45%; Visteon Corp., 2.42%; Anixter International Inc., 2.35%; Alamo Group, Inc., 2.28%; Valley National Bancorp, 2.24%.

1 Active Share is the percentage of a fund's portfolio that differs from the benchmark index. The Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. Indices are not securities that can be purchased or sold, and their total returns are reflective of unmanaged portfolios. The returns include reinvestment of interest, capital gains and dividends.

2 The Fund's Institutional share class one year, five year and ten year average annual returns for the period ended April 30, 2016 were –4.35%, 6.49%, 4.17%, respectively. The Fund's Institutional share class one year, five year and ten year average annual returns for the period ended March 31, 2016 were -7.18%, 6.49%, 4.02%, 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 1.14%, 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 the 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.

1. Cambrex is a substantial beneficiary of the U.S. Federal Drug Administration's (FDA) significantly enhanced effort to ensure quality manufacturing processes. The company has benefitted as larger pharmaceutical companies have re-shored their API sourcing activities to "Western" Current Good Manufacturing Practice (CGMP) companies.
2. Industry growth remains healthy, aided by the increasing number of small molecule drug developments and pending regulatory approvals in the U.S. and Europe.
3. Pharmaceutical companies are continuing to reduce their own manufacturing activities and thus turning to outsourcing firms, such as Cambrex, to focus on new drug development.

Cambrex is in the midst of a capacity expansion in Charles City, Iowa that should drive significant revenue growth as this capacity is completed and filled for the next few years.

Carrizo Oil & Gas, Inc. (CRZO) Since our initial purchase in February, Carrizo Oil & Gas has been a strong performer. With a solid balance sheet and a significant drilling inventory, we see Carrizo as a multi-year compounder into recovering oil prices, however long that takes.

Based in Houston, TX, Carrizo is an exploration and production company focused on oil and gas plays in the U.S. Its most important acreage is in the high quality core areas of the Eagle Ford shale in South Texas, the Delaware basin in the Permian in West Texas, and the Utica shale in Ohio. Carrizo's share price, like those of all oil and gas production companies, came under extreme price pressure in February, as the market sold off and investors feared sustained oil prices in the low-$20 per barrel range.

Carrizo is unique from our perspective as a small cap company thanks to its high quality acreage (what we call good rocks) and a strong balance sheet. It fits our criteria for creditworthiness, with a disciplined hedging program to forward sell 50% of production, and a recently re-determined borrowing base on its $600 million revolving loan versus $50 million drawn.

As for its acreage, Carrizo rocks aren't just good, their 88,000 acres in the Eagle Ford play in South Texas are great, with about 75% oil cuts and a PV10[3] break-even of $32.50 per barrel. Further, Carrizo has the ability to respond quickly to higher prices, with drilled but uncompleted inventory of 53 net Eagle Ford wells, which represents upwards of almost 12,000 barrels of oil equivalent production per day (BOEpd), or almost half of their current production run rate. With stronger prices, Carrizo has the balance sheet and the acreage to opportunistically increase production in 30 days through fracking and completing these wells. Moreover, it has a long horizon of drilling visibility with 53 planned Eagle Ford wells in 2016, vs. a base well inventory of 915 drilling locations and potentially an inventory of 2,100 locations with tighter spacing. Indeed, as good oil plays get better, Carrizo has the sweet spot acreage in one of the best.

Interface, Inc. (TILE) Interface has been on our radar for some time and during the quarter its stock price reached a level we viewed as an attractive entry point, having declined more than 40% within the past few quarters due to investor concern around the company's level of growth. While we agree that growth in the short-term is likely to be muted, we believe the company's core product – modular carpet – is poised for long-term secular growth.

Interface is the world's leading manufacturer of carpet tile. The strength of its brand and its reputation for service, quality, design and performance provide a competitive advantage. Interface's global manufacturing capabilities across four continents also provide an advantage in serving multinational corporate customers quickly and cost-effectively.

Central to our thesis on Interface is the fact that carpet tile has reached the point where it is cost-competitive with traditional 'broadloom' carpet but offers numerous advantages, including efficiency in installation and replacement. In addition, the company is well-financed and well-managed, with a long-tenured management team.

Having made our investment in the company at an undemanding valuation of 13-14x free cash flow and a substantial discount to our estimate of NAV, we believe the market is likely to assign Interface a higher valuation over time as commercial construction levels continue to improve and Interface continues its expansion overseas and into newer verticals such as education. Moreover, we would not be surprised to see Interface become an acquisition target itself if its current depressed valuation in the public markets persists.

Kennedy Wilson Holdings, Inc. (KW) During the quarter, the Fund was able to acquire shares of Kennedy Wilson Common at a substantial discount to our estimate of NAV, as the general market sell off, combined with unfounded fears of market liquidity for deals, pushed the stock down significantly.

Kennedy Wilson Holdings (Kennedy Wilson) is a U.S.-based real estate operating company. The company is an integrated global real estate investment and services company with a $2 billion portfolio of investments in a diversified mix of commercial and residential assets. In addition, Kennedy Wilson has more than $18 billion of assets under management (AUM) on behalf of third parties.

The management team owns 18% of the company's stock and has historically been a savvy capital allocator, having made substantial investments in Japan during the 1990s, in the U.S. following the financial crisis, and in Europe and the U.K. in more recent years. The template has been the same in all markets: invest capital in out-of-favor regions or property types at substantial discounts to underlying value, actively manage properties and add value during the

3 PV10 is the present value of the estimated future oil and gas revenues, reduced by direct expenses and discounted at an annual rate of 10%.

holding period, realize profits over the long term, and recycle capital into new opportunistic investments. This model has produced a notable 10-year tangible book value growth CAGR of 13.5%. Our knowledge and due diligence of Kennedy Wilson was aided significantly in partnership with Third Avenue's Real Estate team, who have owned the stock since early in 2015.

At our average cost of just over $17 per share, we not only have significant upside to our NAV estimate of $25, but also what we consider to be a "free option" on performance fees and monetization of low basis (and now entitled) land acquired in conjunction with income-producing properties. The company appears poised to generate sizable NAV growth as it expands third-party AUM and harvests profits (including promotes) from a series of the well-timed investments it made over the past several years.

NetScout Systems Inc. (NTCT) Near-term concerns over a slowdown in carrier spending provided us an opportunity to acquire shares of NetScout common at a substantial discount to our estimate of NAV.

NetScout is a well-financed provider of 24x7 network monitoring solutions to carriers and enterprises. Its offerings provide high-quality performance analytics that help its customers resolve technology issues that could negatively impact service quality and/or result in outages/downtime and compromised security. Last year, the company acquired certain communications assets from Danaher which doubled its addressable market by broadening its product offerings, providing an entrée into the cyber security space and increased its distribution. Cost synergies estimated at around $45-55 million are expected from the elimination of redundancies and economies of scale, with additional synergies generated over time as the company moves toward common infrastructure platforms, distribution and support programs.

In the long term, demands for increasing amounts of data seem to continue unabated (not only Big Data but more and more use of streaming video!), requiring more monitoring and troubleshooting of network traffic which should benefit NetScout. For carriers, the cost of monitoring to keep existing customers happy with their service is a small price to pay compared to the cost to acquire new customers.

CREATING VALUE IN TURMOIL – SELF-HELP REVISITED

As our discussion of new positions demonstrates, there are numerous ways to create benefits for shareholders when companies stay focused on the fundamentals of their businesses despite market volatility. Our investee companies are often involved in value creating resource conversion activities – often of their own making – and thus we don't need to rely solely on public markets to generate positive investment returns.

"One of the huge advantages of being a long-term investor in well-financed companies is that the strong finances give reasonably competent managements opportunities to be opportunistic, something probably unavailable to most managements when they are forced to be supplicants to creditors." So said our chairman, Martin Whitman, in the July 2006 Third Avenue Value Fund letter to shareholders. This statement remains true today.

We look at our portfolio companies and regularly notice quite a number have the ability to be opportunistic or, more simplistically, are involved in some form of self-help. We think of self-help as situations in which management teams have an ability and pathway toward unlocking value for shareholders, regardless of the macro environment.

Self-help can come in many forms: cutting costs, rationalizing the supply chain and other operational efficiencies, divesting non-core businesses, mergers and acquisitions. We believe our portfolio tends to gravitate toward companies in these situations since, at Third Avenue, we are attracted to companies with strong financial positions and solid management teams which have good prospects for compounding growth over the longer-term. In assessing management teams, our focus is to understand their track records as operators, as owners and as financiers. We look to see if over time they have been able to build business value, if they have a reasonable strategy for longer-term growth, if they've been disciplined and opportunistic financially, and if their interests are aligned with shareholders. As value investors, we are also looking to invest in the securities of these companies at discounts to their NAVs. This differs from investing in companies in which there are well-known catalysts. One generally has to "pay up" for securities with embedded catalysts, thereby reducing one's margin of safety.

An example of one of our portfolio holdings which has had, and continues to have, opportunities for self-help is Visteon Corp. (VC), a well-capitalized automotive electronics company. The stock was a top contributor to the Fund's performance during the quarter, with a total return of 19.1%.

Visteon provides products to automotive OEMs (original equipment manufacturers) such as Ford, GM, Daimler, BMW, Nissan and Honda for their digital cockpits, i.e., the instrument cluster, information displays and infotainment – each of which has a presence in the connected car. Comparing today's cars to those just five years ago, the amount of additional functionality is amazing – from infotainment that connects to your smartphone to driver assistance safety features such as rear back-up cameras, collision detection, and blind spot and lane departure warnings. Integrated instrument clusters can be personalized if, for example, you'd rather see the weather than your tachometer. There are even over-the-air software upgrades where, instead of having to take your vehicle to the dealer for an update, the upgrade can happen seamlessly while you're asleep and your car is in your own driveway.

The media is abuzz about self-driving cars and the car as an extension of people's mobile life. For the auto OEMs, having connectivity is a strategic differentiator and one that can be the deciding factor to a customer when choosing a particular car. Visteon is an enabler of connectivity with its cockpit electronics products – it enables the information to be gathered from various sources and displayed in the vehicle.

Visteon's roots can be traced back to its role as an automotive supplier to Ford Motor, providing climate control systems, electronics and interiors. The company was spun off in 2000, but then fell upon difficult times during the financial crisis. It reorganized and emerged from Chapter 11 in 2010. Two years later, management embarked upon a path to shift to higher margin products, deciding to exit the commodity interiors business and ultimately deciding to sell its stake in its climate control business to focus solely on electronics. It is here that the Fund got involved with Visteon. Management sold its stake in the climate control business at an attractive 10x EBITDA valuation and committed to return a substantial portion of the proceeds to shareholders. It had also acquired the automotive electronics business from Johnson Controls to bolster its overall electronics business and was actively pursuing new business wins with OEMs as well as reaffirming its technological strength and longer-term roadmap to re-win existing platforms. Further, a new CEO, Sachin Lawande, was brought in. Sachin had previously been the president of the Infotainment division at peer company, Harman. Since his arrival at Visteon, he has brought in additional talent along with a greater focus on software development, a key driver for this business.

Visteon continues on its path to building value. Even after a sizable capital return, the company maintains a net cash position. It remains focused on driving growth with its presence in the connected car. It has won business across various classes of vehicles from luxury to mid/entry level. It achieved its targeted cost synergies related to the acquisition of the JCI automotive electronics business ahead of plan, and has targeted reducing overhead costs further to improve margins. Adjusted EBITDA margins have improved from 7.2% in 2014 to 9.5% in 2015 and 11.9% in the first quarter of 2016.

We remain excited about the prospects for growth at Visteon as it expands its presence in the connected car and believe the stock, at current levels, still represents significant upside to our estimated NAV.

LOOKING FORWARD

We continue to have high conviction in Third Avenue's investment philosophy which is focused on creditworthiness, an ability to compound NAV and a patient buy-at-a-discount to our estimate of NAV. We are highly enthusiastic about the composition of the portfolio and remain excited about the Fund's growth prospects. We are optimistic not only about the closing of the discounts to NAV but also about our investee companies' ability to compound growth over time. In short, we remain big fans of good, well-managed companies selling for attractive prices, and if market volatility can help out with the latter part, that's fine with us.

Thank you for your continued support and interest in the Fund. We look forward to writing to you again next quarter.

Sincerely,

The Third Avenue Small-Cap Value Team

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