THIRD AVENUE
MANAGEMENT

THIRD AVENUE SMALL-CAP VALUE FUND

Portfolio Manager Commentary

INSTITUTIONAL: TASCX | INVESTOR: TVSVX

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THE SODA FOUNTAIN

Recently, I took my three pre-teens and a couple of their friends to the local pizza joint for dinner. Beyond enjoying the best New York pizza in New Jersey, I was both horrified and intrigued by the action of the kids at the self-serve soda fountain. With a wide offering of soft drinks, energy drinks and even iced tea at the push of a button, the fountain itself is a microcosm of sorts for the stock market. There are a lot of choices, and with some research and thought, one is able to choose a drink of one's preference. However, the gang I brought seemingly chose the ETF route, and decided to have a little of everything in one glass. While the effort and the mixing seemed exciting to the group at first, the result was a greenish-brown mixture that "was sugary but flat", according to reports that I chose not to verify. While the strategy to mix it all in was popular, and indeed entertaining for a short period, the result was product that was not desired and indeed wasted in the glass. As a tried and true value investor who values research and concentration, I could not resist drawing the conclusion that the forced mixture did not produce the optimal result. Much like for our style of investing, the forced mix of a little of everything in an ETF is not how we see adding value in the market.

This anecdote is another way to answer the question of whether we think the markets are too expensive, a topic we discuss in our Value Fund letter this quarter. We do not think of our portfolio as a good representation of the market, as it is a bottom-up collection of individual investments with the commonalities of a strong balance sheet, potential for compounding of value and significant undervaluation vs. our Net Asset Value (NAV) estimates. The Third Avenue Small Cap portfolio currently holds 61 positions with an approximately 95% Active Share vs the Russell 2000 Value Index[1], meaning 95% of the price movement in the portfolio is not explained by overlap with the index . The Fund's weightings and sector allocations are a result of a bottom-up approach to idea selection and not a top-down look at benchmark weightings. Said differently, we only are willing to own securities that meet our time-tested philosophy and are not willing to lose a little less in a sector we don't find attractive and call it a victory. It is in this sense that we can acknowledge that the strong run in the market has made certain areas unattractive for investment, in our opinion, but in the same light argue that we are still able to find compelling value in this market.

A good example of this thought is our increased ownership position in Syntel Corporation (SYNT) common stock this quarter. Syntel has sold off dramatically over the first quarter, and as we have said we would do, we have added aggressively to the position for we continue to see the company as well-positioned but the stock now trading at a much larger discount to our estimate of fair value NAV.

A REVIEW OF OUR SYNTEL INVESTMENT CASE

Based in Troy, Michigan with 23,000 employees globally (two thirds of whom are businesses based in India), Syntel provides software development, automates processes, and builds web and mobile applications for major clients such as American Express and Federal Express, helping them to keep up with the ever changing demands of the market place, improve operational efficiency and deal with disruptive innovations or new regulations in their industries. Different from many competitors whose value proposition relies solely on lower labor costs in developing countries to effectively arbitrage wages by offshoring services such as data entry, payment processing or customer support, Syntel's value added offerings are highly technical and strategically focused. Syntel's employees perform data warehousing functionality, enable cloud technology, provide data analytics and consulting services, and even design and execute strategies for companies to transform their legacy systems to compete in the rapidly evolving digital age.

We believe Syntel has a bright long term outlook because technological changes are continuous and corporations have to adapt and innovate to remain relevant. Syntel's corporate customers outsource their peripheral functions, allowing them to focus on their core competencies, while at the same time taking advantage of Syntel's best-in-class industry practice knowledge.

Despite the high level of competition, the business is not a commodity and has high switching costs. Syntel's revenues are stable, with a high percentage from renewals each year. Its clients normally do not change providers solely because of price, as it is much more efficient to use the same vendor because the consultants already understand the inner working processes. Syntel's long term contracts provide a relatively high degree of revenue visibility. Since 2007, Syntel has organically (i.e., without acquisitions) grown its revenues 12.4% and operating income 17.1% on a compounded annualized basis. Its EBITDA margins, as an indication of the quality of the services provided, are nearly 30%, best in class levels vs. its peers. Beyond compounding growth, what attracts us most to Syntel is its ability to generate cash. After capital expenditures, the business

1 The Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

throws off about $200 million in free cash flow each year. With this free cash, management was able to pay out a special dividend of $1.26 billion or $15 per share in October of 2016.

Syntel shares have come under pressure recently, due to uncertainties surrounding the U.S. presidential election, health care reform, announced (but not approved) mergers of its large healthcare insurer clients and general financial regulatory uncertainties. These uncertainties led some Syntel clients to delay some IT spending in the short term, but importantly they have not backed away from these longer term investments. This likely temporary slowdown led Syntel to lower its near-term outlook, which disappointed some investors and led to a dramatic sell off in its stock price from $26.50 per share at the ex-dividend date to approximately $17 per share currently. We, too, view this slowdown as temporary, and we do not see the longer term industry drivers nor Syntel's competitive position or cash flow generation metrics to be impaired. At the current stock price, Syntel is trading at approximately 8.5x this year's earnings per share, creating a compelling upside of more than 50% to our NAV estimate, which has given us an opportunity to increase our position, over and above reinvesting the special cash dividend we were paid earlier in the year. So, as we have long written, we have moved to aggressively add to a position on weakness where the investment case remains strong and the price decline has effectively reduced the risk of the security. Syntel, in our opinion, is a strong demonstration that there is attractive value to be found in individual securities, despite elevated broader index levels.

PERFORMANCE

For the quarter-ended March 31, 2017, the Third Avenue Small Cap Value Fund returned 0.74% ahead of the -0.13% return of the Russell 2000 Value benchmark[2]. The top three contributors were VCA Incorporated (WOOF), Visteon Corp. (VC) and NetScout Systems Inc. (NTCT). VCA Incorporated, the largest public operator of animal hospitals, announced an agreement where Mars Inc. would acquire the company for $93 per share in cash. Shares of Visteon, which supplies automotive electronics products, performed well on the announcement of solid 4Q 2016 earnings and significant new business wins. NetScout, a provider of network performance and security offerings, continues to deliver critical solutions and new products.

The top three detractors were ICF International (ICFI), World Fuel Services (INT) and G-III Apparel Group (GIII). Despite strong earnings growth, ICF's share price retreated as the results fell a bit shy of investor expectations in the quarter. ICF is a global government consultant in technology, policy and spending in areas such as defense and homeland security. We continue to see the company as well-positioned to deliver critical services and solutions to its customers and see the decline as an overreaction by the market. Similarly, the market did not like continued near-term weakness in World Fuel Services' results. The company is a leading provider of aviation and marine services, including fuel supply, weather reports and flight plans to a variety of customers such as the US military. We believe the company is well positioned to grow and compound earnings as demand for their services increases globally. Shares of G-III weakened with the general retail space as warm weather drove negative results in outerwear divisions. We see this weakness as transitory, and see a compelling valuation for the shares as the company continues to build out its women's focused businesses of Calvin Klein, Tommy Hilfiger and now Donna Karan.

PORTFOLIO ACTIVITY

We initiated positions in TRI Pointe Group Inc. (TPH), Core-Mark Holding Company (CORE) and Photronics Incorporated (PLAB). We discuss all three positions below, with a common attribute of all three as having sold off from recent highs, demonstrating again our ability to find attractive values in this market. We exited positions in WCI Communities as the acquisition by Lennar Inc. was completed, and also exited positions in Alleghany Corporation (Y), JZ Capital Partners (JZCP), Allscripts Healthcare (MDRX) and Kirby Corporation (KEX) as these companies' stock prices strengthened towards and reached our price targets.

It was a fairly active quarter as we trimmed 20 positions and added to 16 existing holdings. The top three additions to existing names were Synaptics (SYNA), Quanex (NX) and BMC Stock Holdings (BMCH), as we continued to build out these new positions, which were added in 4Q16. Similarly, our trims were mainly of longer-held positions that performed strongly through 4Q16 and the first quarter, and thus we harvested some of these gains to reinvest into newer names and existing positions that had pulled back to attractive buy levels.

TRI Pointe Group

We initiated a position in the common stock of TRI Pointe Group (TPH), a U.S. based homebuilder with a predominantly West Coast focus. We have followed TRI Pointe closely since it acquired the U.S. homebuilding assets of Weyerhaeuser (WRECO) in a Reverse Morris Trust structure in July of 2014. Our patience watching this high-quality name paid off, as shares sold off from over $20 per share after the deal announcement and around $16 per share post-close, to our buy price of under $12 per share, just slightly over reported tangible book value and significantly under our estimate of economic book value.

Despite TPJ's share price weakness since early 2014, the housing cycle has continued to improve and management has done a commendable job integrating the WRECO assets and developing a plan to maximize shareholder value. While the research team at Third Avenue continues to see the U.S. housing market recovering off of a protracted bottom, our TPH investment case does not rely on a general acceleration in the housing cycle, but more on an internal acceleration of community openings well within management's control.

2 **Please see Appendix for performance table and information**

TRI Pointe has a strong management team that has worked together for over 20 years, dating back to William Lyon Homes. In founding TRI Pointe, management invested over $10 million of their own capital into the venture, further solidifying their motivation to create value. Since the WRECO acquisition closed, management has restructured both the design and pace of development of acquired properties, and has a well-structured plan to accelerate its California deliveries in 2018 and 2019, up to ten years ahead of the WRECO team's plan. Due to the Reverse Morris Trust structure of the acquisition, these properties are not carried at market values on TRI Pointe's balance sheet, but at historical values that by our estimate add $4 per share to our NAV estimate today. Currently, we see over a 20% discount to fair value for TPH, and given the internal restructuring improvements and the likely acceleration in the housing cycle, we maintain a favorable outlook for the company's ability to grow its NAV over time.

Photronics Corp.

Photronics (PLAB) is a well-financed, leading manufacturer of photomasks, which are high-precision plates containing "blueprints" for manufacturing electronic circuits used in semiconductors and flat panel displays (FPD). The increasing prevalence of electronics is driving demand for smaller semiconductor chips with more functionality, better resolution, lower power consumption, etc. As semiconductor chips get smaller and more complex, the number of processes required to manufacture them, and thus the number of masks used, increases. Each new chip or FPD design requires a new mask set.

While not central to our investment thesis, the photomask market has consolidated over the years given the capital and R&D intensity of the business. Given its small size, Photronics could be an attractive acquisition candidate to one of the larger merchant firms or to one of the semiconductor/foundry companies that want in-house capability.

Photronics' near term business has been negatively impacted by a large customer (Samsung) transitioning a facility from LCD to OLED technology along with delays in some customers' ability to ramp to next-generation nodes. However, over the longer-term, growth is likely to be driven by end demand for electronics and by technological advances. Photronics' strong financial position, with net cash representing around 35% of its market cap currently, should enable it to weather near-term cyclicality. The markets negative reaction to these short term product transition delays allowed us an opportunity to acquire shares of Photronics' common stock at an attractive discount to estimated NAV.

Core-Mark

Founded in the late 1800's, Core-Mark (CORE) has grown to become one of the two largest distributors for North America's convenience store (c-store) industry, delivering food and general merchandise to gas stations, drug stores, airport newsstands, grocery stores, hotel shops and numerous other c-store formats. The company currently serves more than 40,000 retail customer locations. Core-Mark has been on our radar for years given prior meetings we've had with management and our prior investments in the c-store industry (Core-Mark customers) that we've written about in these letters. It was during the first quarter this year that the common stock price reached a level we viewed as an attractive entry point, having declined nearly 40% on investor concern around the company's level of growth. Core-Mark is well-positioned to continue growing through a combination of customer wins and acquisitions. The c-store industry is very large, representing about a third of all retail locations, and growing steadily with the societal shift toward convenience in North America and globally. As Core-Mark's market share in the space is still only in the single-digits, Core-Mark should continue growing both with the industry and also through continued share gains. Core-Mark has been able to capture market share given the breadth of its services, its national footprint, its buying power and the efficiency of its operations. As examples, Core-Mark can distribute goods more efficiently than individual brands delivering directly, and Core-Mark can also assist c-store operators with best practices, creating sticky consultative relationships. One of the areas in which Core-Mark has developed a particular expertise is fresh food, aided by its market-leading fleet of tri-temperature compartment trucks, which represents over 90% of its fleet vs. peers' levels at approximately 40%. Core-Mark's market-leading ability to deliver ambient, refrigerated and frozen goods from the same truck is a competitive advantage given the outsized growth fresh food has experienced in c-stores and we expect will continue as customer awareness and demand continues to grow.

In addition to Core-Mark's long-term outlook for growth, the company is well-financed and very well-managed, with long tenures at the company among its management team and an exceptional double-digit track record of compounding the company's book value. Given the fragmented nature of the industry and Core-Mark's solid balance sheet and cash flows, we expect management will be able to continue building value through resource conversion as well, having executed numerous attractive acquisitions in the past.

Having made our investment in Core-Mark at an undemanding valuation around 10x EBITDA, we believe the market is likely to assign the company a substantially higher valuation over time and close the discount to our estimate of NAV as the company continues to demonstrate its ability to win customers and grow earnings and book value both organically and inorganically.

CONCLUSION

While our primary benchmark, the Russell 2000 Value, and the broader markets in general, have moved higher since the election and investor expectations also appear elevated, we believe that our concentrated, high-conviction approach enables us to find good opportunities for investment today. We are not the market, and we certainly do not allocate our capital to be a little bit better or worse than an index of disparate securities assembled with no risk characteristics in mind. We had an active quarter in both initiating and increasing weightings of positions, as well as harvesting securities that had become fully valued. Moreover, as the second quarter begins, we are actively buying two new securities that we look forward to sharing with you when we write to you in July.

We thank you again for your trust and support.

Sincerely,

The Third Avenue Small-Cap Value Team

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Lead Portfolio Manager

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Portfolio Manager

March 31, 2017

FUND PERFORMANCE

as of 3/31/17	1 yr	3 yr	5 yr	10 yr	Since Inception	Inception Date
TASCX (Institutional)	23.19%	6.83%	11.47%	5.42%	8.92%	4/1/1997
TVSVX (Investor)	22.92%	6.56%	11.19%	(n/a)	10.46%	12/31/2009

TOP TEN HOLDINGS

	% of Portfolio
Cubic Corp.	2.8
Commerce Bancshares, Inc.	2.8
Netscout Systems Inc.	2.6
Southside Bancshares Inc.	2.4
VCA Inc.	2.4
UMB Financial Corp.	2.4
Prosperity Bancshares Inc.	2.2
Genpact Ltd.	2.0
DST Systems Inc.	2.0
Syntel Inc.	2.0

Allocations subject to change

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 and investor share classes is 1.15% and 1.40%, respectively, as of March 1, 2017. 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.

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THIRD AVENUE MANAGEMENT

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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