Dear Fellow Shareholders:

It’s a distinct honor to be back at Third Avenue Management and managing the Small-Cap Value Fund (the “Fund”). Our history of investing in small-cap companies goes back even further than the strategy’s inception in April 1997. In fact, Marty Whitman’s original (deep) Value Fund was classified as a small-cap fund in its earliest days before it grew in size and capitalization focus. Since its 1997 inception, the Third Avenue Small-Cap Value Fund has compounded at a 9.03% rate, outperforming the broader small-cap universe over that time period. Although I have only been back for a few weeks, the energy here is inspiring. There is a powerful, collective commitment to produce results commensurate with the pride we hold in our firm, and thereby reward shareholders for the confidence they have placed in us.

During the third quarter, the Small-Cap Value Fund gained 4.63%, underperforming the 5.11% return for the Russell 2000 Value Index. Year-to-date, the Small-Cap Value Fund is up 7.24%, outperforming the 5.68% return of the Index.

Before returning in mid-September, I re-read Marty’s latest book, Modern Security Analysis. It’s one of those books where you learn something new every time you read it. The principles are timeless, yet unconventional. The book reinforced the beliefs that are embedded in the Third Avenue investment culture. In an environment where many investors are running in the same direction, Marty’s wisdom is refreshing and timely. Re-reading it gave me clarity on the critical priorities for managing the Small-Cap Value Fund.

Given that portfolio activity was limited during the quarter, this letter will highlight our approach to security selection and portfolio management as well as our outlook on fund positioning.

SECURITY SELECTION: PRIMACY OF THE BALANCE SHEET VS. THE INCOME STATEMENT

A strong financial position is the first of Third Avenue’s bedrock principles for companies in which we invest in equity securities. Honest and capable management, full financial transparency and a significant discount to readily ascertainable net asset value are the other three. Primacy of the balance sheet has meaning beyond balance sheet strength though. Of course, financial strength is a prerequisite for any equity investment at Third Avenue, but measuring how operational or transactional cash flows translate into wealth creation on the balance sheet is a step in our process that separates us from most of our peers. We expect our companies to grow and generate double-digit annualized net asset value growth over a cycle. We assess management not only as operators, but also as capital allocators and financiers. Meanwhile, the income statement and specifically earnings per share are the sole focus of many investors. A myopic focus on the income statement overlooks the vitally important areas of raising capital and allocating it. We will assess managements on their ability to identify and execute on attractive reinvestment opportunities with conservative financing. Companies that generate earnings, but imprudently invest them often get a free pass by investors. All too often, today’s capital investments result in tomorrow’s "one-time" charges. Our approach focuses on growth in net asset value per share over time which allows us to find value where others aren’t looking.

One of our holdings, Seaboard Corporation, is a terrific example. Seaboard is a well-managed value compounding with a strong financial position. We have been invested in the company for almost two years, and it’s been a material contributor to the Fund’s performance over that time. In the third quarter, the shares rose 13%. Seaboard is a conglomerate, so operating performance can be volatile over shorter periods, and it’s difficult to analyze given its diversified portfolio of businesses, ranging from livestock in the U.S. to power production in the Dominican Republic. Management isn’t concerned with short-term volatility, but is instead focused on long-term value creation. That’s a positive for us, but many peers don’t share our view. The chart below speaks volumes. Earnings per share have bounced around from year to year, but book value has grown steadily. Seaboard’s operating performance would scare off those solely focused on the income statement. By carefully scrutinizing the balance sheet and management’s capital allocation abilities, we were able to purchase a unique asset that we believe will compound value for a very long time.

![Seaboard Corporation](source: S&P Capital IQ)
To conclude this section, I wanted to add a personal anecdote. When I started with Third Avenue, I internalized Marty’s strategy on a deeper level than I had from simply reading the books. By carefully assessing management’s ability to generate true value creation on the balance sheet, it improved my ability to weed out value traps. Investing in value traps is an unfortunate reality for any value investor. Poor capital allocation is often the culprit. A balance sheet focus helps an investor steer clear of value traps which can be harmful to investment performance.

**PORTFOLIO CONSTRUCTION: CONCENTRATION**

Chapter 13 of *Modern Security Analysis* reviews diversification and relates it to the Kelly Criterion. The Kelly Criterion is a formulaic method for determining how to place bets in games of chance. Investing isn’t a game of course, but the principles are applicable to managing portfolios. Being price-conscious and attaining a deep knowledge of companies significantly improves your investment odds. The key is to determine your “edge” and invest accordingly. Third Avenue has an analytical edge. Our team works together to comprehensively break down companies before investing your capital and is intellectually honest about monitoring portfolio companies afterwards. Our process is selective, dispassionate, and conservative. When an investment meets our strict criteria, it makes sense to concentrate. Strong investment opportunities are not easy to find. When we find one, we want to earn impactful returns.

As this translates to the Fund, expect the number of holdings in the portfolio to decline by at least one third. The Small-Cap Value Fund had 62 positions on 6/30/17. During the third quarter, the Fund exited six positions: VCA Inc. (acquired by Mars, Inc.), Brookdale Senior Living, G-III Apparel, DSW Inc., ANI Pharmaceuticals and CIRCOR International. Each of these investment decisions balanced valuation, risk, tax and portfolio management considerations.

Cash will fluctuate as a result. When there are many opportunities, cash balances will dwindle. When opportunities are scarce, we tend to let cash build, at times as high as 10%, but a concentrated fund makes it easier to reduce cash levels quickly by purchasing new ideas or adding to existing holdings.

In sync with our priority to concentrate the portfolio on the best risk-return investments, expect the allocation to the top ten largest positions to increase. The top ten positions will predominantly be our compounders. Seaboard which was discussed earlier is a prototypical top ten investment for the fund and a member of our compounding “bucket”. Risk control and liquidity will be tightly monitored for these positions. Companies such as diversified financial institutions (banks, P&C insurance companies), conglomerates, and real estate companies are likely to comprise a significant portion of the portfolio. The balance of the portfolio will be our “time arbitrage” bucket. This bucket is comprised of companies with strong financial positions, but trading at deep discounts to NAV due to short-term, fixable problems. Preferably, companies in this bucket will have assets or other attributes that are being overlooked amidst short-term pessimism. If the company has a strong financial position and is well-managed, we will patiently wait for the ‘clouds to lift’. Our holding periods of these companies are sometimes shorter than the compounders, but given the valuation discounts we require, the turnarounds are typically measured in years, not quarters. We are value investors, not value traders.

We are firm believers in the buy and hold approach for a fund investment, but we aren’t ostriches. When we are wrong on our thesis, we sell immediately. Intellectual honesty and being willing to fail quickly are critical for superior investment performance. That the rationale for exiting a position is clearly articulated before each investment is made helps avoid thesis drift. For companies reaching our net asset value estimates, business quality is a key consideration. Higher-quality wealth creators are given more leeway than others that are either cyclical or facing steeper challenges. Our preferred way to exit a position is through resource conversion. If we are doing our job correctly and finding well-capitalized compounders, the private markets often help close the valuation gaps we find.

**PORTFOLIO POSITIONING: FINANCIAL SERVICES, US RESIDENTIAL HOUSING & AUTO SUPPLIERS**

We have diligently reviewed the portfolio seeking candidates for increased exposure while looking for new ideas to deploy our cash. We are directing our energy to three specific areas currently: financial services, U.S. residential housing and auto suppliers. Our views on each sector are listed below:

**Financial Services**

Interest rates continue to slowly rise and our banking investments have benefited. We currently own seven regional and community banks (Commerce Bancshares, Cullen/Frost Bankers, Prosperity Bancshares, Southside Bancshares, UMB Financial, Valley National Bancorp and WesBanco). We are primarily interested in banks with strong financial positions, conservative credit metrics, easy to understand balance sheets and a history of compounding capital at double digit rates. In addition, we are particularly attracted to banks that have complementary businesses, such as wealth management, which may understate the true economic book value of the company. From a quality perspective, our collection of banks is top-notch and meets our criteria. We are confident that they are well-positioned for robust book value compounding over the long term as well as attractive resource conversion candidates.

We aim to supplement our bank investments with investments in property and casualty (P&C) insurers. Given the horrific natural disasters this year, fear is starting to creep back into the consciousness of P&C investors.
We are actively looking for companies with the balance sheet quality, underwriting savvy and discounted valuations we require for insurance company investments. As the damages from 2017’s storms are determined and results released, we are hoping to identify interesting opportunities.

U.S. Residential Housing

Supply and demand dynamics in the US residential housing sector remain compelling. Supply has yet to catch up with demand as inventories are low in many geographies. Although many investors try to predict changes in interest rates and demand trends when investing in this segment, housing supply in our view is the most critical factor. As long as supply remains low, we believe the housing sector fundamentals will remain sound. We are invested all along the residential housing food chain. Companies we own that should benefit from this trend include Interfor (wood products), BMC Stock Holdings (building materials supplier) and TRI Pointe Group (home builder), and are actively seeking additional investments to increase our exposure.

Auto Suppliers

The combination of existential threats from electric cars and an extended recovery in auto sales has created excessive pessimism in this segment. In our view, it’s overdone. The average age of vehicles continues to rise and the projections for electric car share gains appear excessive to us. The disruption, uncertainty and pessimism surrounding the industry is creating opportunities. We are particularly interested in auto suppliers. The suppliers benefit from the rising age of cars on the road and have a broader range of investing outcomes. This contrasts from original equipment manufacturers (OEMs) or retailers where the opportunity set is more binary. Our investments within the auto sector are well-capitalized companies and have the capacity to compound our capital through cycles. We currently own Visteon (cockpit/infotainment), Standard Motor Products (replacement parts), and Dorman Products (replacement parts). We like the positioning of each company and are looking to increase our exposure through additional investments.

CONCLUSION

By following Marty’s philosophy and focusing on the priorities outlined above, we expect to build upon our differentiated portfolio of companies that have all-weather balance sheets but trade at attractive valuations either for short-term “fixable reasons” or that have been neglected by index-oriented investors due to the idiosyncratic nature of their businesses. Often times, these types of investments can provide more attractive downside protection in volatile stock market cycles.

For those interested in reading more about our deep value philosophy, Third Avenue offers free copies of Dear Fellow Shareholders..., a collection of excerpts from the “best of” Marty Whitman’s coveted quarterly shareholder letters

from the past 30 years. Please contact clientservice@thirdave.com to receive the link to the eBook version or a hard copy appropriate for any bookshelf.

We look forward to hearing from you and thank you for your investment in the Third Avenue Small Cap Value Fund.

Sincerely,

Vic Cunningham
IMPORTANT INFORMATION

This publication does not constitute an offer or solicitation of any transaction in any securities. Any recommendation contained herein may not be suitable for all investors. Information contained in this publication has been obtained from sources we believe to be reliable, but cannot be guaranteed.

The information in this portfolio manager letter represents the opinions of the portfolio manager(s) and is not intended to be a forecast of future events, a guarantee of future results or investment advice. Views expressed are those of the portfolio manager(s) and may differ from those of other portfolio managers or of the firm as a whole. Also, please note that any discussion of the Fund’s holdings, the Fund’s performance, and the portfolio manager(s) views are as of September 30, 2017 (except as otherwise stated), and are subject to change without notice. Certain information contained in this letter constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "project," "estimate," "intend," "continue" or "believe," or the negatives thereof (such as "may not," "should not," "are not expected to," etc.) or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual performance of any fund may differ materially from those reflected or contemplated in any such forward-looking statement.Current performance results may be lower or higher than performance numbers quoted in certain letters to shareholders.

Date of first use of portfolio manager commentary: October 19, 2017
FUND PERFORMANCE

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<th>Fund Type</th>
<th>1 yr</th>
<th>3 yr</th>
<th>5 yr</th>
<th>10 yr</th>
<th>Since Inception</th>
<th>Inception Date</th>
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<td>TASCX (Institutional)</td>
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<td>9.03%</td>
<td>4/1/1997</td>
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<td>TVSVX (Investor)</td>
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<td>12.18%</td>
<td>(n/a)</td>
<td>10.61%</td>
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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.thirddave.com. The gross expense ratio for the fund’s institutional and investor share classes is 1.21% and 1.45%, 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.

Third Avenue Funds are offered by prospectus only. The prospectus contains important information, including investment objectives, risks, advisory fees and expenses. Please read the prospectus carefully before investing in the Funds. 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 updated information or a copy of our prospectus, please call 1-800-443-1021 or go to our website at www.thirddave.com. Distributor of Third Avenue Funds: Foresse Fund Services, LLC.

Current performance results may be lower or higher than performance numbers quoted in certain letters to shareholders.

Date of first use of portfolio manager commentary: October 19, 2017

Third Avenue offers multiple investment solutions with unique exposures and return profiles. Our core strategies are currently available through 40 Act mutual funds and customized accounts. If you would like further information, please contact a Relationship Manager at:

622 Third Avenue, 32nd Floor
New York, NY 10017

212.906.1160
clientservice@thirddave.com