Dear Fellow Shareholders:

Happy New Year! The Third Avenue Small Cap Value Fund (The "Fund") rose 1.62% during the fourth quarter and was up 8.86% in 2017.1 It underperformed our benchmark index, the Russell 2000 Value, by 54bps during the quarter and outperformed by 1.02% in 2017.2 New product introductions and record backlog at Visteon helped it to be a key contributor to 2017 performance. Despite solid operational performance, our bank positions were lackluster performers which weighed on fourth quarter returns.

**ACTIVITY**

It was an unusually active quarter as we re-position the portfolio. We expect activity to moderate in 2018 as we have a buy-and-hold mindset focused on long-term wealth creation. Four positions were added (Aspen Insurance Holdings, Carter Bank and Trust, Five Point Holdings and Tidewater). The new additions are discussed below.

In last quarter’s letter, we expressed interest in Financial Services, US Residential Housing and Auto Suppliers. We were pleased to add positions in financial services and residential real estate in the fourth quarter as well as a special situation, Tidewater.

**Aspen Insurance Holdings**

Hurricane activity created dislocations in the insurance markets last quarter. Swiss Re recently estimated insured catastrophe losses approaching $140B for the industry in 2017 due to natural and man-made disasters – the worst year in history. Aspen’s book value took a 10% hit in the third quarter creating an investment opportunity as the stock price declined 30%. This overreaction allowed us to purchase shares at discount to tangible book value.

Aspen is a well-capitalized, diversified insurance company. Their business is roughly split between primary insurance and reinsurance. Founded in the post 9/11 period, Aspen has consistently grown book value per share. It’s a compounding that has liberally shared excess capital with shareholders returning 77% of earnings over the past ten years via share-buybacks and dividends.

Given Aspen’s strong financial position and healthy compounding record, the risk/return tradeoff was favorable. There are other benefits as storm losses should boost pricing in many of Aspen’s key markets, namely property catastrophe. In addition, given Aspen’s size, assets and depressed price, it could be a compelling resource conversion or takeover candidate.

1. The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization.

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Carter Bank and Trust

As noted in our letter last quarter, banks are another focus area for us given the favorable outlook for the industry, particularly with the likelihood of regulatory relief on the horizon. While the improving sector dynamics have lifted industry valuations broadly, there are still instances of smaller community banks receiving less attention. One of these relatively under-the-radar banks is Carter Bank & Trust, a commercial and retail bank in Virginia and North Carolina trading at an undemanding valuation around 1.2x its tangible book value. Carter’s valuation has lagged peers in part due to heavy insider ownership and an indifference to the norms of Wall Street. It isn’t covered by any Wall Street banks and the company doesn’t provide typical quarterly conference calls.

Carter and its predecessor banks have been in business more than four decades and today it is the second-largest community bank in Virginia. The bank’s geographical footprint is one we’ve sought exposure to over time, as Virginia and North Carolina are two of the faster-growing states within the U.S., with business-friendly environments and favorable demographics. Carter came to our attention over the last quarter in the process of reviewing well-capitalized banks that meet our thresholds for historical compounding, and we believe the bank is well-positioned to continue compounding over the long term as well. With a market share in the single-digits, Carter should continue growing both with its markets and also through share gains in these fragmented geographies, particularly as it executes on its current initiatives of adding fee-generating services and expanding in new lending areas. Importantly, over the bank’s history, Carter has evidenced a track record of maintaining a well-capitalized balance sheet and conservative credit culture. This has resulted in exceptional compounding of the company’s tangible book value – about 12% annualized, on a per share basis over the last decade. Also, the strong insider ownership at Carter aligns incentives for continued management conservatism and shareholder value maximization. Over time we believe the market is likely to assign Carter a higher valuation and close the discount to our estimate of net asset value (NAV) as the bank executes on its growth and margin expansion initiatives and comes onto the radar of more investors. Meanwhile, Carter could also become a resource conversion target itself, given its modest size and the large amount of bank M&A activity within Virginia and the Carolinas of late.
Five Point Holdings

Residential real estate is an area where the fundamentals remain compelling. New U.S. home starts continue to lag demand and inventories are depressed in many areas; California in particular. Five Point went public in May 2017 and we were able to purchase shares at a discount to the IPO price as investors initially struggled with the complexities of the business structure.

Five Point is a well-capitalized owner and developer of mixed-use planned communities in coastal California. Our Real Estate team suggested we review it as it’s an investment in their fund. The Real Estate team is intimately familiar with their assets through their investments in both Newhall Land Development LLC and Lennar Corp. Given the value of the assets and the strong financial position, we think it is a compelling opportunity. Our timing was fortuitous as projects are beginning to generate cash flow. We were also greeted with good news in November as Five Point reached a settlement on various legal challenges to the development of the Newhall Ranch properties which is a high barrier-to-entry market. We believe Five Point is a perfect addition to our long-term compounding bucket.

Tidewater

Tidewater is a special situation. It was recommended to us by the Value Team who outlined their thesis in the 9/30/17 letter. It is an oil and gas service company focused on offshore service vehicles (OSVs). Given the carnage in the energy sector over the past 3 years, it’s a fertile hunting ground for enterprising, deep-value investors. Unfortunately, most energy companies are poorly capitalized which reduces their appeal to us. Tidewater went through a pre-packaged bankruptcy in early 2017 and emerged with a net cash balance sheet. The Company suffers from the stigma of being a post-bankruptcy company, but this stigma created an opportunity. Post-bankruptcy, not only is Tidewater a net cash company, but it is trading at a discount to our estimate of liquidation value and stated book value. Book value is a reliable metric due to “fresh start accounting.” During the bankruptcy process, book value is restated to reflect current market values. Current market prices are depressed in our estimation given the poor industry dynamics with day rates and utilization at historic lows. If the industry remains depressed, many assets will need to be scrapped as owners can no longer afford to maintain them, setting up a robust rebound as oil and gas markets recover. We can’t predict the timing of a cycle upturn, but we are comfortable investing in a net cash company with strong assets. Management visited our offices in November and stressed their determination to manage costs aggressively to protect their pristine balance sheet.

During the quarter, ten positions were eliminated (Tri-Net Group, Photronics, Patterson Companies, Quanex Building Products, Multi-Color, World Fuel Services, Horizon Global, Core-Mark Holdings, Cambrex Corporation and Barnes Group). The number of positions is down to 50 and we expect that number to decline further in 2018. Cash was 9.4% of the portfolio at year-end.

POSITIONING

Progress was made concentrating the portfolio, but we still have more work to do. Currently, the portfolio is roughly 75% compounders and 25% “time arbitrage.” We expect the “time arbitrage” bucket will be roughly 1/3 of the portfolio over time. Our compounders are long-term wealth creators that don’t get cheap very often. When they do for short-term, fixable reasons, we hope to buy and hold these positions. Our preferred exit for compounders is resource conversion. The “time arbitrage” positions are well-capitalized companies that are trading at deep discounts to NAV. Many of these companies will be cyclical or highly complex/missunderstood special situations. These positions will have shorter holding periods. With optimism in vogue right now, it’s harder to find attractive “time arbitrage” situations such as Tidewater. We are building our wish list and when fear shows up, we will be ready.

We took advantage of opportunities to increase the position sizes of our attractively priced compounders such as MYR Group (MYRG). We spent considerable time last quarter discussing our focus on compounding book value. Our largest position, MYRG provides a textbook example of why investing in companies that focus on capital allocation and book value growth is a wise investment strategy. An irrational stock price reaction to 3Q 2017 earnings allowed us to increase the position during the quarter. The share price has since snapped back as investors began giving the company more credit for the improvements in business value.

MYRG is an engineering and construction company that performs services for utility companies and commercial and industrial operations. With our infrastructure aging and “blackouts” now a common occurrence across the US, we believe MYRG is poised to benefit from a boost in spending on infrastructure overall and transmission and distribution specifically for many years to come.

Our attraction goes well beyond industry dynamics though. MYRG is one of the few companies we have studied that publicly grades its investment spending. In each quarterly release, it provides an update on capital deployed and the returns generated on those investments. It carefully weighs the trade-off between capital spending, stock buybacks and acquisitions. Given the depressed stock price, buybacks have been a priority as share-count has declined 20% over the past two years. We have been happy to buy right along with management.

One of MYRG’s named competitors in its filings is MDU Resources (MDU), a larger company with revenues three times MYRG’s, but MDU does not share MYRG’s capital discipline. Capital expenditures are materially higher than MYRG’s and it has pursued more of an acquisition strategy as opposed to organic growth. MDU’s share count has crept higher over the years, and adverse charge-offs have been material.
MYRG has been a public company since December 2008. Over the nine years since, stark differences in capital allocation strategies have dictated the fates of MYRG and MDU. We grade our companies based on long-term tangible book value per share growth and the charts below illustrate how MYRG’s steady book value growth has been followed over the long term by a rise in share price. MYRG book value per share has risen 170% (12% CAGR) since 12/31/2008 vs. MDU book value per share which has declined 20% over the same time period. That’s interesting, but shareholders are most concerned with total shareholder return. An investor could have purchased both companies at low double-digit EPS multiples at the end of 2008. Yet, MYRG’s compounded total shareholder return since then exceeds 15% while MDU has only compounded at a 6% rate over the same time period.

When the dust settled, we analyzed the portfolio to determine the impacts. The results were encouraging. It’s a complex bill, but two components should be specifically beneficial to our portfolio companies:

1. Tax Rate Lowered to 21%:
Given that most of our companies are domestically oriented, they tend to pay higher taxes. Close to half had effective tax rates in the past year exceeding 30% and two-thirds paid over 25%. A 21% tax rate will help those companies. As we are attracted to management teams that are focused on growing book value per share through prudent capital allocation, the combination of having excess capital and a lower tax rate could be a motivator for opportunistic investments. For example, MYRG’s effective tax rate exceeded 40% in 2016. Lower taxes will boost earnings and cash flow starting in 2018.

2. Net interest exceeding 30% of EBITDA is no longer deductible:
Based on our analysis and the strong financial positions of our companies, the impact of this change on our portfolio is de minimis. Meanwhile, it could have a significant negative financial impact on peer companies that have levered balance sheets, thus enhancing the competitive advantage of well-capitalized companies like ours.

We want to wish you a happy, healthy and prosperous 2018! We look forward to hearing from you and thank you for your investment in the Third Avenue Small Cap Value Fund.

Sincerely,

Vic Cunningham

OUTLOOK

We have been diligently working to define our investment universe. Capital allocation matters greatly and we want to align ourselves with companies and managements that are thoughtful about not only creating capital, but also deploying it. When done properly, business values should grow in varied market environments and so should shareholder returns. Carter was discovered through this process and we are hunting for other companies that have similar long-term track records, but are out of favor currently. We still believe there are stones to be uncovered in financial services (insurance and small banks in particular) and real estate in attractive geographies.

We will conclude this section with commentary of how tax changes will impact our portfolio. Taxes was the dominant news story during the fourth quarter as Congress passed an impactful tax reform package prior to the holidays.
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 December 31, 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: January 12, 2018
THIRD AVENUE SMALL-CAP VALUE FUND

APPENDIX

INSTITUTIONAL: TASCX | INVESTOR: TVSX

December 31, 2017

FUND PERFORMANCE

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<th>as of 12/31/17</th>
<th>1 yr</th>
<th>3 yr</th>
<th>5 yr</th>
<th>10 yr</th>
<th>Since Inception</th>
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<td>TASCX (Institutional)</td>
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<td>8.66%</td>
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TOP TEN HOLDINGS % of Portfolio

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<th>Security</th>
<th>% of Portfolio</th>
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<td>MYR Group, Inc.</td>
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<td>Legg Mason, Inc.</td>
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<td>Cubic Corp.</td>
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<tr>
<td>ICF International, Inc.</td>
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<tr>
<td>Tri Pointe Group, Inc.</td>
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<td>Tidewater, Inc.</td>
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<tr>
<td>Prosperity Bancshares, Inc.</td>
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<td>BMC Stock Holdings, Inc.</td>
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<td>FTI Consulting, Inc.</td>
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<tr>
<td>Emcor Group, Inc.</td>
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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 1.21% 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 web site at www.thirdave.com. Distributor of Third Avenue Funds: Foreside 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: January 12, 2018

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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