THIRD AVENUE SMALL-CAP VALUE FUND

Portfolio Manager Commentary

INSTITUTIONAL: TASCX | INVESTOR: TVSVX | Z: TASZX

June 30, 2018

Victor Cunningham, CFA | Portfolio Manager

Dear Fellow Shareholders:

The Small-Cap Value Fund ("The Fund") rose by 2.7% in the quarter ending June 30, 2018, while the Russell 2000 Value Index rose 8.3%[1]. Although we are pleased with the absolute result, it was a disappointing quarter overall. Year-to-date, the Fund is up 5% vs the Index which is up 5.4%[1]. It's been a tale of two quarters this year. In the first quarter, Index returns were negative and the Fund generated positive returns. In 2Q, the Index raced ahead and the Fund did not keep up. While downside protection is a critical component of our investment process, it is not helpful when the Index rises over 8% in a quarter!

Small Cap stocks turned into a safe haven last quarter as trade rhetoric put pressure on larger, global companies. The Fund has high active share, meaning the portfolio is significantly different from the Index, which probably did not help as investor money may have indiscriminately shifted into passive Small Cap Funds. According to Jefferies, Small Cap ETFs had net inflows of $9.5B in the second quarter versus outflows in the first quarter.

Two of our top 10 positions were up strongly during the quarter, which boosted returns. Seacor Marine rose 21% as rising oil prices opened up investors' eyes to the neglect in the oil services sector. In addition, MYR Group (MYRG) rose 15% after a blow-out earnings report. Spending in the electric utility industry remains challenged, but MYRG's management has wisely shifted resources to its commercial and industrial business to compensate. It is not surprising, as we have highlighted MYRG's capital allocation prowess in past letters. Operating performance was terrific and the future looks bright with backlog at record highs.

There were a few culprits which caused the underperformance. Five Point Holdings (FPH) was most notable declining 21% in the quarter. There were two primary reasons for FPH's poor performance. One is fundamental and the other technical. Fundamentally, there were delays at one of its San Francisco developments due to questions about the remediation efforts at the site. We think it is a timing issue, and does not hurt the long-term potential of the project which remains promising. Technically, FPH reached its one-year anniversary since the IPO in May which means the lock-up period ended for original investors. That probably added to selling pressure as well. FPH's balance sheet remains strong and the asset portfolio is robust. At current prices, it is trading at a significant discount to our conservative net asset value estimates. Nothing has changed our long-term view. Selling by investors with a shorter-term outlook allowed us to add to our position.

Finally, financial positions performed poorly last quarter. As a group, our financial companies were flat in 2Q which hurt in a rapidly rising market. Investors are concerned about the flattening yield curve and its impact on financial services companies, especially banks. We firmly believe that interest rate changes might impact stock prices in the short-term, but the quality of the asset portfolio and a strong financial position are more important drivers of long-term performance. This past quarter's operating results were strong so we feel good about our financial services positions as a result.

Activity

During the quarter, three positions were eliminated (Interface, Insight Enterprises and Korn Ferry) as they reached full value. We also exited our DST position when it was acquired in a cash deal during the quarter. We added three securities (ATN International, Sanderson Farms and Seacor Marine Secondary).

Although Seacor Marine is not a new company, the Fund participated in a private placement issued last quarter. The terms were attractive and the timing was excellent. We mentioned in our last letter that Seacor Marine's management team is composed of skilled financiers. The capital raise last quarter is a perfect example of their creativity and ambition. Attractively priced assets are available in the energy services sector given investor angst and Seacor wants to have ample capital available to seize those assets should they present themselves.

A brief summary of our theses on ATN International and Sanderson Farms are listed below:

ATN International (ATNI): ATN is a company that has been on our radar for years and one that we have been in dialogue with since last fall. After waiting and watching patiently for an attractive price, the unfortunate hurricanes of last fall helped create the opportunity for us to purchase shares of the company at a discount to net asset value. While it's not a well-known name on Wall Street or Main Street, ATNI is an international holding company with investments currently spanning the telecommunications and renewable energy industries, providing wireless and wireline access and solar power to under-built markets. The company owns hard infrastructure assets across the US, the Caribbean, India and South America. Last year a portion of its Caribbean assets were severely damaged by Hurricanes Irma and Maria. While this will create headwinds for ATNI's earnings over the coming periods and has weighed heavily on the price of its stock, we believe the company's assets remain very valuable long-term, and heavily discounted by the short-term public markets. In fact, we think the period of restoration ahead of the company could ultimately serve to strengthen the long-term resilience of its asset base. In the meantime, the company is eminently creditworthy and operated by a very skilled, thoughtful management team, led by the founding Prior family which continues to own a large portion of the company. A careful review of

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.

Please see Appendix for performance table and information

management's track record shows them to be very adept operators, financiers and investors, the three primary areas where we assess management teams. In particular, ATNI has created tremendous value over time through resource conversion focused around opportunistic acquisitions and divestitures, and we expect this capital allocation prowess will continue compounding shareholder value over the long-term.

Sanderson Farms (SAFM): SAFM is a company that has been owned by Third Avenue in the past. We have been following it closely this year as it declined 40% from its December 2017 highs. The company fits neatly into the Fund's time arbitrage bucket which is comprised of companies that are out of favor for temporary, fixable reasons. It is the third largest integrated poultry producer in the United States. It is out of favor due to near-term pricing concerns and fears it will be impacted by the high profile trade disputes. It meets our criteria for a variety of reasons. First, it is well-capitalized (15% of market cap is net cash) and well-managed. The poultry industry has grown at impressive rates over time as incomes rise and consumer tastes shift away from beef due to health concerns. SAFM has consistently grown its operations through a disciplined capital allocation program. The return profile is stellar and the balance sheet is pristine!

SAFM's stock price is under pressure as investors are worried about declines in sales to restaurants and industry supply additions. We have studied past cycles and were impressed with the resiliency of pricing over time. Other cycles adjusted relatively quickly. Given the strong demand trends over a long period of time, we are confident this cycle will adjust as well. We have valued the business multiple ways and determined that the value of SAFM's operations are deeply discounted at current prices. As Marty might say, SAFM is suffering from a case of short-termism. With a skilled management team, robust end-market demand and a highly liquid balance sheet, we are comfortable waiting out the near-term headwinds.

Positioning

We continue to concentrate the portfolio as the number of positions declined to 39. That compares to 62 when we took over management of the Fund last September. We hope to be down to the low-30s by year-end.

We are building a portfolio of deep-value securities with high quality asset portfolios run by skilled management teams. If management owns a lot of stock, that is a bonus. The Fund holdings are categorized as either long-term compounders or time arbitrage positions. Compounders are now 74% of the portfolio while time arbitrage positions are only 18%. We expect the time-arbitrage bucket will be one-third of the portfolio over time. We will get there when more industries are under pressure.

The bulk of the compounder bucket is comprised of companies such as Seaboard, MYR Group and ATNI where balance sheet strength and prudent capital allocation should allow those companies to compound for many years to come. Financial services makes up one third of the compounder bucket. We feel investor angst regarding interest rates is overstated and the quantity and quality of the investee balance sheets will allow those companies to compound book value at double digits rates over time. Given the excess capital industrywide and a more relaxed regulatory environment, resource conversion potential for our companies gets better every day as stock prices stagnate.

The time arbitrage bucket is made up companies such as Tidewater, Seacor Marine and Sanderson Farms. All those companies are out of favor right now, but given their strong financial positions, we believe they have the luxuries of time and capital to invest and grow until the clouds dissipate.

Cash was 8% at quarter-end and remains a strategic asset. In choppier market environments, we aim to have ample capital to add to existing positions or purchase new securities.

Outlook

We recently participated on a panel at the Ben Graham conference hosted by the CFA Institute. While preparing for it, it strengthened our conviction for how the Fund is positioned currently. The theme of the panel was, "The Death of Value Investing." When learning of the theme, it brought me back to the late 90's. At that time, my beloved Yankees were the best team in baseball and Value Investors spent a lot of time explaining why their form of investing still mattered. The more things change, the more things stay the same. Close to 20 years later, the Yankees are back on top and Value Investors are on the defensive once again. Things turned for Value Investors in early 2000's as the struggles in the late 90's turned into a renaissance in the early part of this century. Cycles end and new ones begin.

As analysts, we did some research preparing for the panel and our findings were both comforting and revealing. Although we are index agnostic when managing the Fund, long-term trends are often worthy of study to figure out which sectors are either in or out of favor. After studying the Russell 2000 Index, we reached a few conclusions. First, buying out of favor securities works over time. Second, the whole debate surrounding Value vs. Growth is overstated. Value investors and Growth investors historically gravitate to certain sectors: Value investors usually are attracted to energy and financials for example while Growth investors famously love technology stocks. As those sectors cycle in and out of favor, it often dictates who is winning the value vs. growth debate. Most importantly, the sectors that perform usually are moving from cheap to expensive.

Following is a summary of our findings.

We know Value has been out of favor over the last 10 years so we expanded the scope to 20 years to smooth out the data. We were amazed at how different the results were in the first ten years vs the last ten. We split the data into two distinct periods (6/98 to 6/08) and (6/08 to 6/18). We labeled the 6/98 to 6/08 period the "Value Cycle" and the 6/08 to 6/18 period the "Growth Cycle." A summary of the annualized returns for each period is listed below:

	Past 20 Years 6/98 - 6/18	Value Cycle 6/98 - 6/08	Growth Cycle 6/08 - 6/18
Russell 2000 Value	8.7%	7.7%	9.6%
Russell 2000 Growth	7.0%	3.0%	11.1%

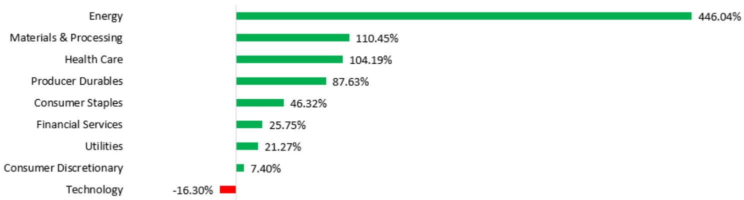
Source: Bloomberg

Source: Bloomberg

A few things stand out from the chart above. First, despite a rough time over the past 10 years, Value still wins over the entire 20 year period! Second, the divergence between the two cycles is striking. Value did very well until 2008, but has lagged materially since the financial crisis. Why?

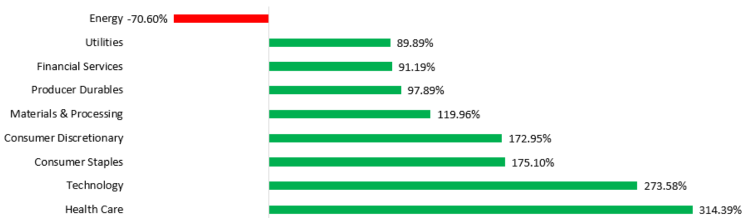
Listed below is the sector performance of the Russell 2000 Index during both cycles. They tell widely different stories. Energy was the clear cut winner during the Value Cycle while Technology generated NEGATIVE returns over a 10 year period. On the other hand, Technology doubled the return of the Index during the Growth Cycle while Energy generated significant NEGATIVE returns.

Value Cycle (6/98 – 6/08)



Source: Bloomberg

Growth Cycle (6/08 – 6/18)



Source: Bloomberg

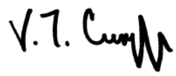
In 2008, there were likely plenty of technology companies that were neglected given the poor performance of the sector over the previous ten years. Savvy Investors who took advantage were richly rewarded over the next 10 years. On the other hand, energy companies were likely overvalued and investors who were exposed got hurt. We feel energy companies represent an equivalent opportunity to technology companies 10 years ago. We are finding well-capitalized companies with strong asset portfolios trading at highly attractive valuations. The previous 10 years has been pitiful and investor revulsion remains. It is interesting to note that energy accounts for just 1% of the Russell 2000 Growth Index currently. That's telling. Future returns are what matters and we (with our colleagues on the Value team) believe that investing in companies such as Tidewater and Seacor Marine is prudent positioning at this time. Seacor Marine and Tidewater are Top 10 positions currently and we are excited about their prospects. Similar to investing in technology 10 years ago, we believe investing in energy is the best way to produce risk-adjusted returns over the next 10 years.

Conclusion

Absolute returns matter most. Those returns help you pay for college, retirement or other endeavors. We were pleased to generate 5% returns through the first 6 months of the year. The relative performance this quarter stung though as the Fund didn't keep pace with the rapidly advancing indices. Successful investment is a marathon, not a sprint. Fortunately, the underperformance of companies such as Five Point and the financial services companies seems temporary. Our fundamental theses remains intact. That's much better than investment mistakes which create permanent losses on capital. As long as the fundamentals are strong, the stock prices should regain their stride.

We look forward to reporting back to you next quarter. Thank you for your investment in the Small-Cap Value Fund.

Sincerely,



Vic Cunningham, CFA

IMPORTANT INFORMATION

Date of first use of portfolio manager commentary: July 23, 2018

June 30, 2018

FUND PERFORMANCE

as of 6/30/18	1 yr	3 yr	5 yr	10 yr	Since Inception	Inception Date
TASCX (Institutional)	11.52%	8.64%	10.41%	6.80%	9.02%	4/1/1997
TVSVX (Investor)	11.31%	8.39%	10.14%	(n/a)	10.45%	12/31/2009

TOP TEN HOLDINGS

	% of Portfolio
Aspen Insurance Holdings Ltd.	6.1%
ICF International, Inc.	3.8%
Tidewater, Inc.	3.7%
MYR Group, Inc.	3.7%
Prosperity Bancshares, Inc.	3.1%
Cubic Corp.	3.1%
SEACOR Marine Holdings, Inc.	3.0%
FTI Consulting, Inc.	3.0%
Tetra Tech, Inc.	2.8%
Carter Bank & Trust	2.6%

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, investor and z share classes is 1.20%, 1.45% and 1.10%, respectively, as of March 1, 2018. 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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