Dear Fellow Shareholders,

For the fourth quarter ending December 31, 2018, the Third Avenue Small Cap Value Fund (the “Fund”) declined by 17.3%, while the Russell 2000 Value Index declined 18.7% percent. For 2018, the Fund declined 12.4% versus the Index that posted a 12.9% decline. 1 Although the Fund outperformed the Index on both a quarterly and annual basis, the primary objective is absolute returns.

The portfolio was constructed for times such as the fourth quarter. The compounding bucket would provide a shock absorber for the portfolio, while the time arbitrage/special situation bucket would be more volatile. There was a wide disparity between the two buckets this past quarter as the time arbitrage/special situation bucket declined 25% in aggregate, more than doubling the losses in the compounding bucket. We take solace in the fact that our portfolio companies maintain strong balance sheets and discounted valuations. Investments in housing (Five Point, TRI Pointe, and Interfor), energy (Tidewater and SEACOR Marine) and auto (Visteon) were the primary culprits as they discounted for the possibility of a severe recession and held the portfolio hostage during the quarter.

Small cap stocks entered bear market territory in the fourth quarter. December was the worst month for the Russell 2000 ever! Focusing on the fundamentals and avoiding the noise is critical though. Operationally the companies mentioned above are performing well while maintaining strong financial positions. The conservative NAV estimates are growing or stable, so as discounts widened, additional capital was deployed across the companies listed above. It was encouraging to learn insiders shared our optimism, as there were sizable insider purchases during the quarter.

The aggregate portfolio NAV discount widened to 30% at year-end. The Fund had ample cash early in the quarter and it was prudently deployed into the highest conviction investments as stock prices swooned. Although the absolute returns were highly disappointing, it reminded us of the often used quote that “you make most of your money in bear markets, but you don’t realize it at the time.” Fund Management added to its personal holdings in the Small Cap Value Fund in the fourth quarter to punctuate our conviction.

We are deep value investors. In order to generate risk-adjusted returns over time, assets need to be deployed into areas that are out of favor (or hated). If the balance sheets are solid and the prices are right, we are comfortable deploying capital when others are selling. Being a careful liquidity provider should be fruitful over the long-term. It is a prudent strategy over time, but not all the time as was experienced last quarter.

As mentioned, the most notable detractors were in three specific areas: housing, energy and auto. The thesis on housing was detailed in the September 30, 2018 quarterly letter and remains intact. Home builders quarterly performance for Five Point (down 26%) and TRI Pointe (down 12%) as well as lumber producer Interfor (down 26%) weighed on returns. Energy stocks were bludgeoned as well with oil declining roughly 40% in the fourth quarter. Oil service companies Tidewater (down 39%) and SEACOR Marine (down 48%) weren’t spared. Global oil supply spiked for transitory reasons in the fourth quarter due to miscalculations associated with the Iran oil sanctions. We maintain our view that oil demand will continue to grow and offshore production will remain a critical component of meeting supply needs. Auto supplier Visteon declined 35%. It was hit hard as China slowdown fears and trade rhetoric hurt both auto producers and supplier companies. Visteon maintains a net cash balance and has a robust product portfolio focused on cockpit electronics – a highly desirable area in the auto supply sector. The current sub-$2 billion enterprise value is a steep discount to our NAV estimate. Fund Management also believes it is one of the most compelling resource conversion candidates in the portfolio.

Activity

As expected with the market volatility, we had an active quarter. Seven positions were eliminated from the portfolio to concentrate the Fund in the companies with the most favorable risk/return characteristics. Companies eliminated included WesBanco, SP Plus, CSG Systems, Commerce Bancshares, BMC Holdings, AMN Healthcare Services and Aspen Holdings. Adjusted cash declined from 9% to 3% during the quarter. Customers Bancorp (CUBI) was added to the portfolio as well.

CUBI is a $600 million market cap holding company based in Pennsylvania with tangible equity of $720 million ($22.74 per share). It was founded by the current CEO, Jay Sidhu. Sidhu is an owner-operator and well-known for being unconventional and controversial. Prior to founding CUBI, he was ousted from Sovereign Bank prior to the financial crisis after a high-profile fight with activist investor firm, Relational Investors. Sidhu is also controversial for his outspoken views on the industry. He firmly believes the branch model is dead and has built CUBI using a branch-light strategy. He was on the sidelines during the financial crisis, but took advantage of dislocations in the market to build what is now CUBI. CUBI also owns a high-profile mobile banking unit named BankMobile. BankMobile’s platform focuses on college financial aid disbursements. BankMobile is attempting to leverage its role in the financial aid process to build broader banking relationships with millennial customers. The potential is compelling, but the unit is not yet profitable which weighs on CUBI’s returns and helps create the investment opportunity.
CUBI came onto our radar in early 2018 as it attracted investor angst due to a low yielding asset portfolio coupled with high cost deposits. We studied the company, and although the compounding was impressive and price attractive, the company didn’t meet our safety test due to lower than desired capital ratios. The balance sheet needed more capital to support its aggressive growth strategy. Fund Management’s opinions pivoted in the fourth quarter when CUBI disclosed radical changes. Growth would be curtailed to boost capital ratios while also giving the company time to build out the BankMobile unit without triggering constraints put in place by the Durbin Amendment. After follow-up conversations with management, we concluded the changes would provide the financial strength we crave while also giving the company plenty of options to grow tangible book value. Although the strategy was music to our ears, it triggered a revolt by many in the investment community who focus on earnings growth. CUBI’s stock priced declined below tangible book value in response. We pounced!

The investment risk is that CUBI’s strategy is unconventional and may not work. BankMobile has high potential, but the mobile banking industry is moving quickly and it is too early to determine winners and losers. We also believe investors are myopically focused on BankMobile while overlooking the core banking business. The investment opportunity is attractive because there are multiple ways to win without taking on too much risk.

How can CUBI win? First, the book value is solid and buying at a discount to book provides a sizable margin of safety. Second, book value is poised to grow even if core earnings do not as capital ratios are boosted. Third, the core banking operations are generating $2.40 per share in EPS (end-of-year stock price: $18.20) before excluding the losses from BankMobile. If BankMobile does not play out according to plan and the unit is sold or closed, returns on assets would immediately rise by excluding the losses or monetizing the asset. Scuttlebutt estimates of BankMobile’s private market value range from $50 to $150 million ($1.50 to $5/share) if management decided to sell. Finally, BankMobile operations could achieve profitability representing a growth vehicle for CUBI or a highly attractive asset for resource conversion. The earnings outlook at CUBI is cloudy which caused many investors to retreat to the sidelines. Our focus is on the assets, the compounding capability of those assets and the steep discount to tangible book value. Those factors gave Fund Management confidence to establish a position in CUBI given its favorable risk/return profile.

Positioning

There were 33 positions in the Fund at quarter-end. That’s down from 39 at 9/30/18 and in the range of how many positions the Fund will hold going forward. Cash stands at 3% which is close to fully invested. Any new positions would require us to knock out an existing position. That’s a compelling place to be.

The Fund holdings are categorized as either long-term compounders or time arbitrage positions. Compounders represent approximately 67% of the portfolio while time-arbitrage/special situation positions are 30%. That’s a boost from previous quarters as the time arbitrage/special situation bucket has grown to desired levels of roughly one-third of the portfolio. Fear needed to show up for the time arbitrage/special situation bucket to grow and it did during the fourth quarter.

Included among the Fund’s compounding bucket are Seaboard (conglomerate), MYR Group (engineering and construction firm) and ATN International (infrastructure holding company) 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 compounding category.

The time arbitrage/special situation bucket is predominantly comprised of energy services companies such as Tidewater and SEACOR Marine, real estate-related holdings such as Interfor and TRI Pointe Group, and other out-of-favor companies such as Sanderson Farms (poultry producer), AdvanSix (chemical producer) and Visteon (auto supplier). All these companies are cyclical and out of favor right now, but given the strong financial positions, Fund Management believes they have the luxury of time and capital to invest and grow until the clouds dissipate.

Outlook

After a gut-wrenching quarter, where do we go from here? We believe balance sheet strength will matter again. The portfolio changes made over the past three months are consistent with Fund Management’s strategy since inception. Security selection focused on a primacy of the balance sheet over the income statement. All investments need to be well capitalized and have the ability to grow book value at double-digit rates over time. The Fund’s high active share1 (97.8%) is a byproduct of the differentiated strategy and is out of step with many peers who are more focused on earnings growth.

Interest rates dominated the headlines in 2018 for good reason. The Fed Funds rate increased from 1.5% to 2.5% and the 10-year note yield rose from 2.4% to 2.65% at year-end. Most importantly, the 10-year note yield peaked above 3% in 2018. Predicting interest rates is not part of our process. On the other hand, although we do not try to predict the weather either, we still carry homeowners insurance. That same spirit of focusing on downside protection is used while managing the Small Cap Value Fund. Fund Management believes that a higher interest rate environment will be problematic for many small cap companies if interest rates continue to rise. Investing in creditworthy companies will be rewarded over the next few years versus the recent past.

RBC US Equity Strategy highlighted small cap leverage risks in a recent report. Displayed below are two charts from the presentation which are revealing. The first shows the net debt to capital ratio of companies in the Russell 2000 (small cap proxy) has grown since the financial crisis. The second chart is more powerful as it shows interest expense as a percentage of sales has remained relatively stable. It’s noteworthy that interest expense for the Russell 2000 is materially higher than companies in the S&P 500 (large cap proxy). Although companies are utilizing more leverage, it hasn’t hit the bottom line as lower interest rates have masked the impact. As interest rates rise, the former tailwind could become a headwind. In addition, assessing creditworthiness is a critical part of our process as we recognize it’s often more difficult for small cap companies to access capital than larger cap companies. It makes the interest expense spread between Small Caps vs. Large

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1. Active Share is the percentage of a fund’s portfolio that differs from the benchmark index.
Caps even more worrisome. Unfortunately, many small cap management teams do not share our concerns.

The Small Cap Value portfolio is heading in the opposite direction by eliminating companies with questionable capital structures. Currently, the aggregate net debt to capital ratio (ex financials) for the Fund is just 7%. That is a materially lower debt level than the Russell 2000 Index as illustrated above. In addition, of the 26 non-financial companies in the Fund, 8 have net cash balance sheets. Given the importance we place on capital allocation, it is comforting to know management teams have capital available to invest and grow in a rapidly changing economic environment. Economies globally have benefitted from easy money and low interest rates for a long time. When it unwinds, there could be unexpected headwinds. Fund Management is being careful to avoid companies that might not be prepared.

In Marty Whitman’s book, Value Investing: A Balanced Approach, he preached the importance of valuing a business as an “integrated whole” and not focusing on a single metric. Many investors are wedded to earnings per share when valuing companies. There are dangers to that approach. Capital structure and creditworthiness will grow in importance if interest rates rise. Fund Management has been particularly vigilant about eliminating companies who used excessive debt to finance acquisitions or other endeavors. Two former holdings illustrate the unfortunate consequences of taking on too much debt to fund growth initiatives. After being eliminated from the Fund in late 2017 after taking on excessive leverage to finance acquisitions, Multi-Color and Horizon Global were down 52% and 89%, respectively for 2018. Although the earnings boost (or “accretion”) captured investor’s imaginations at the time, our balanced approach led us to conclude the companies were too risky for our shareholders given our emphasis on downside protection. The positions were eliminated promptly allowing us to side-step harrowing losses in 2018 as investors focused more on debt service as interest rates rose. We expect to see more small cap companies face similar pressures in a rising interest rate environment.

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

Sincerely,

V.T. Cunningham, CFA

Source: RBC U.S. Equity Strategy, S&P Capital IQ/Clarifi, Compustat, Russell
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, 2018 (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 22, 2018
APPENDIX

December 31, 2018

FUND PERFORMANCE

<table>
<thead>
<tr>
<th></th>
<th>as of 12/31/18</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>
</tr>
</thead>
<tbody>
<tr>
<td>TASCX (Institutional)</td>
<td>-12.37%</td>
<td>6.40%</td>
<td>3.12%</td>
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<td>TVSX (Investor)</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.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.

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.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.

THIRD AVENUE SMALL-CAP VALUE FUND
INSTITUTIONAL: TASCX | INVESTOR: TVSX

TOP TEN HOLDINGS

<table>
<thead>
<tr>
<th>Holdings</th>
<th>% of Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers Bancorp, Inc.</td>
<td>4.7%</td>
</tr>
<tr>
<td>UMB Financial Corp.</td>
<td>4.6%</td>
</tr>
<tr>
<td>MVR Group, Inc.</td>
<td>4.5%</td>
</tr>
<tr>
<td>FTI Consulting, Inc.</td>
<td>4.5%</td>
</tr>
<tr>
<td>ATN International, Inc.</td>
<td>4.1%</td>
</tr>
<tr>
<td>Tidewater, Inc.</td>
<td>3.8%</td>
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<tr>
<td>ICF International, Inc.</td>
<td>3.6%</td>
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<tr>
<td>Prosperity Bancshares, Inc.</td>
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<tr>
<td>TRI Pointe Group, Inc.</td>
<td>3.3%</td>
</tr>
<tr>
<td>Southside Bancshares, Inc.</td>
<td>3.1%</td>
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</table>

Allocations subject to change

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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