

June 30, 2019

Victor Cunningham, CFA | Portfolio Manager

Dear Fellow Shareholders,

For the second quarter ending June 30, 2019, the Third Avenue Small-Cap Value Fund (the "Fund") returned 2.56%, outperforming the Russell 2000 Value Index (the "Index") which returned 1.37% percent. Year to date, the Fund continued to outperform the Index with a return of 13.98% versus the Index which returned 13.47%.¹

Concentration boosted returns during the quarter as one of the Fund's largest positions, Customers Bancorp, was the largest contributor, gaining nearly 15%. Emcor Group was another key contributor, rising over 20% due to its strong operating performance and rumors of a potential takeover of the company.

The aggregate portfolio discount to our mid-case, conservative, net-asset value (NAV) was 15.8% at quarter-end, roughly unchanged from the end of the first quarter. Fund Management has been vigilant about recycling capital into its highest and best uses in 2019. As an example, Fund holding Sanderson Farms was a top-ten position at the end of the first quarter, but was not at the end of the second quarter. The position was trimmed as the anticipated recovery is underway and the rebound in the share price narrowed the NAV discount. In its place, Visteon Corp. was increased substantially to become a top-ten position following a significant decline in its share price during the quarter. Consequently, this attentive recycling of capital allowed the portfolio discount to NAV to remain stable, despite the portfolio rising nearly 3% in the quarter. Additionally, improving operating performance is boosting NAV estimates which we discuss in more detail further on in the letter.

Activity

Activity was muted during the second quarter- there were no new positions added to the Fund and one position, Cubic Corp., was eliminated. Cubic had been a longtime holding of the fund and at initial purchase, was underachieving, yet showing plenty

of potential and a net-cash balance sheet. Since new management took over in 2013, they have strategically changed the corporate culture and acquisitions using leverage have become a core part of management's strategy. Despite Cubic executing a dilutive equity raise last year, balance sheet leverage has crept up to unacceptable levels from our perspective. Although Cubic's product pipeline is exciting, Fund Management lost conviction in the investment given the increased leverage. Cubic has been a satisfactory investment, but the risk/return profile was no longer acceptable given the balance sheet leverage and, as a result, the position was eliminated.

Positioning

There were 31 positions in the Fund at quarter-end, down from 32 at March 31, 2019, but still in the range of the number of holdings the Fund intends to hold. Cash stands at 3% which, in our view, is close to fully invested.

The Fund's holdings are categorized as either long-term compounders or time-arbitrage/special-situation positions. Compounders represent approximately 67% of the portfolio, while time-arbitrage/special-situation positions represent approximately 30%. The percentages remained consistent with those at the end of the first quarter, with the time-arbitrage bucket decreasing marginally and cash increasing by a similar amount.

Included among the Fund's compounder 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 these companies to compound NAV for many years to come. Financial services companies make up one third of the compounder category.

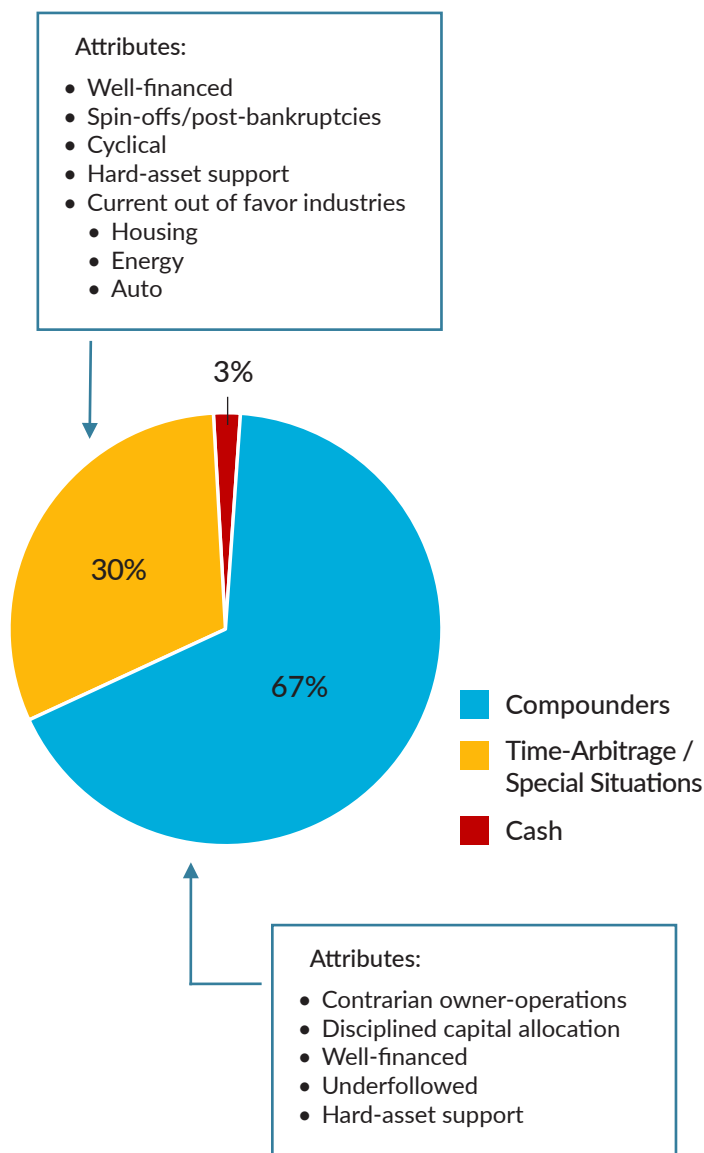
The time-arbitrage/special-situations bucket is predominantly comprised of energy services companies such as Tidewater and SEACOR Marine, real estate-related holdings such as Interfor, TRI

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

Pointe and Five Point Holdings, and other out-of-favor, misunderstood companies such as auto supplier, Visteon. All these companies are cyclical and out of favor currently, but given their strong financial positions, Fund Management believes they have the luxury of time and capital to invest and grow until the clouds dissipate.

The following is a visual breakdown of how Fund Management views the portfolio:

Asset Allocation as of June 30, 2019



Fund Commentary

In January, the Social Science Research Network published an academic paper which caught our attention. The paper was titled “Selling Fast and Buying Slow,” and assessed the buying and selling activities of a cross-section of institutional portfolio managers. After studying investing behavior across 783 portfolios, averaging \$573m in assets under

management, the authors (Akepanidaworn, Di Mascio, Imas and Schmidt) concluded that portfolio managers show clear skill in buying, but not in selling. Not surprising to see, the data bears this out even when compared to random selling strategies. Buying securities receives ample attention from the academic community, media and book authors, yet little has been written about the art of portfolio management and more particular, selling. The paper inspired us to examine our own process and enhance controls to help improve selling decisions. We have outlined those process enhancements in detail further below.

We are “buy-and-hold,” long-term investors, so selling does not come naturally. The muted activity experienced during the second quarter should be the norm. Outside of resource conversion (actions including mergers, acquisitions, privatizations, spin-offs, share repurchases, tender offers and special dividends), there are three reasons to sell. First, the thesis has played out and the risk/return profile of the investment is no longer favorable. Second, cash is constrained, and capital needs to be raised for a new investment. Lastly, the investment thesis isn’t playing out as expected. While it’s obvious the last two reasons require immediate attention and the analysis is relatively straightforward, the first reason is more nuanced and likely an area where many investors are complacent. Thus, we targeted our process improvements to the first area - successful investments.

Further evidence of complacency regarding selling was found in Michael Ervolini’s noteworthy book, *Managing Equity Portfolios*. The book focused on portfolio management and outlined the many pitfalls confronting portfolio managers on a daily basis. One area of focus was selling winners and based on the analysis, shows poor selling is heavily skewed towards “selling not taken.” Selling not taken is holding on to an investment past its productive life. Ervolini considered it the single most common behavioral tendency which reduced performance over 100 bps annually for the portfolio managers he monitored.

While trying to improve our processes in the “selling not taken” area, the task was approached with the spirit that investing is an art, not a science, so heavy rules-based systems weren’t appealing to us. Instead, we favored a process using technology to prompt an intellectually honest dialogue on the potential of an investment after experiencing a substantial improvement in price. If done correctly, it should nudge us toward better decisions.

The process begins with Fund Management receiving an electronic alert once a stock rises over 30% from its recent low. After an alert is received, we review a checklist that was developed to reassess the position.

The high-level checklist questions are as follows:

Small-Cap Value Fund Selling Checklist

- 1. What are the current Low, Mid and High NAV estimates? Are the valuation assumptions still reasonable and sufficiently conservative?**
- 2. Has the original investment thesis played out, or has the share price increased for other reasons? Has the original thesis changed at all?**
- 3. Is the investment a compounder or time-arbitrage/special situation? Compounders tend to be managed against High NAV estimates versus time-arbitrage/special situations which are managed against Low to Mid NAV estimates. The compounders have higher potential for long-term wealth creation so are less attractive sell candidates.**
- 4. Is it safe? Financial strength is reassessed, and operations are stressed to see how the company would perform in different scenarios. If Fund Management maintains confidence in the future operations, it is less likely to be sold.**
- 5. Is it cheap? Current valuations are compared to historical metrics such as Price-to-Book, EV/EBITDA, EV/EBIT, Price-to-Sales and our internal conservative NAV estimates.**
- 6. What is the tax situation? All sell decisions are made with tax implications in mind.**
- 7. What is the strategy? Trim, Sell or Hold?**

Needless to say, selling isn't easy, especially when the thesis is working. However, as the authors of the above paper and Ervolini pointed out, it is an area where most (if not all) investors have room for improvement. Emotions and comfort with an investment often hamper decision making over the long-term. A dispassionate attitude focused on asking difficult questions when it would be easier to avoid them is critical to improving investment outcomes.

It is important to point out that portfolio changes will be incremental and our bias remains toward buying

and holding. On the other hand, the process changes should result in capital being deployed toward its highest and best uses over time. Improvement in this area has been a priority for Fund Management in 2019 and the process is ongoing. In that vein, it is noteworthy that despite the Fund rising 14.0% in 2019, the overall price discount remains attractive at 15.8%. This is among the many data points we are monitoring to improve capital allocation and risk-adjusted, after-tax returns.

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

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Date of first use of portfolio manager commentary: July 19, 2019

THIRD AVENUE SMALL-CAP VALUE FUND

INSTITUTIONAL: TASCX | INVESTOR: TVSVX | Z: TASZX

APPENDIX

June 30, 2019

FUND PERFORMANCE

As of 6/30/19	3 mo.	1 yr.	3 yr.	5 yr.	10 yr.	Since Inception	Inception Date
Third Avenue Small-Cap Value Fund (Institutional Class)	2.56%	-4.88%	8.56%	4.89%	10.72%	8.36%	4/1/1997
Third Avenue Small-Cap Value Fund (Investor Class)	2.49%	-5.20%	8.28%	4.62%	N/A	8.69%	12/31/2009

TOP TEN HOLDINGS

	% of Portfolio
MYR Group, Inc.	5.8%
Customers Bancorp, Inc.	5.5%
Visteon Corp.	5.3%
UMB Financial Corp.	4.8%
Tidewater, Inc.	4.4%
FTI Consulting, Inc.	4.2%
ICF International, Inc.	3.9%
ATN International, Inc.	3.8%
Prosperity Bancshares, Inc.	3.5%
FRP Holdings, Inc.	3.5%
Total	44.7%

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 1.25%, 1.53% and 1.20%, respectively, as of March 1, 2019. 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.


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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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