Portfolio Manager Commentary

SMALL-CAP VALUE FUND

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Joined Third Avenue in 2000
24 yrs investment experience

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Dear Fellow Shareholders,

The Third Avenue Small-Cap Value Fund (the "Fund") returned -5.98% during the second quarter of 2024, compared to a return of -3.64% for the Fund's most relevant benchmark, the Russell 2000 Value Index (the "Index").[1] This quarter's performance brings the Fund's year-to-date return to -0.05%, as compared to a decline of -0.86% for the Index. Performance for the quarter was weighed down by MYR Group, Hamilton Beach Brands, Alamo Group, Supernus Pharmaceuticals, and Collegium Pharmaceutical. The largest positive contributions to Fund performance this quarter were generated by Investors Title Company, Central Securities, Tidewater, Washington Trust Bancorp, and UniFirst.

IT BEGGARS BELIEF

While we may not enjoy it, a single quarter of weak absolute and relative performance is relatively easy to accept. Third Avenue Management's investment approach is intended to produce outperformance over long periods of time and, speaking very frankly, our ability to succeed in that endeavor directly depends upon our willingness to forgo any attempt to outperform consistently over shorter periods of time. However, the recent protracted stretch of rampant large-cap stock performance supremacy has tested the resolve of many U.S. small-cap investors and left some with a nagging feeling that tomorrow may never come.

There are many places one can read fascinating details about extremely unusual recent phenomena in U.S. equity markets. We will only add a few observations here and try to keep them germane to the opportunity we perceive for U.S. small-cap stocks to significantly outperform in the future, that is, if tomorrow ever does come. During the first half of 2024, the very broad Russell 1000 Index[3], representing the 1,000 largest U.S. public companies, outperformed the Russell 2000 Index[4], a very broad small-cap index representing the 1,001st – 3,000th largest companies in U.S. equity markets, by a staggering 12.50%. We refer to the Russell indices specifically because, in combination, these 3,000 companies comprise almost the entirety of the U.S. equity market. This outperformance represents a continuation of a longer-running trend, which has seen the Russell 1000 Index produce returns of 14.57% per annum over the five years ending June 30, 2024, more than double the annualized return of the Russell 2000 Index. Five years does indeed constitute a period of time long enough to be resolve-testing.

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 U.S. Lipper Fund Award for Best Equity Small Fund Family is based on a review of 185 qualified fund management companies that were eligible for the three-year period ending on 11/30/23. To qualify for Lipper's Overall Small Fund Family Group Award, Small fund family groups must have at least three equity portfolios. The group award will be given to the group with the lowest average decile ranking of its respective asset class results based on the three-year Consistent Return measure of the eligible funds.

For its part, the Fund has produced an annualized return of 9.48% over the same five-year period. While we view this as an admirable performance in small-cap land, having produced considerable outperformance relative to the Russell 2000 Index and the Russell 2000 Value Index, the unrivaled strength of large-cap indices remains worthy of reflection.

Moreover, even more astonishing facts can be cited in reference to narrower subsets of U.S. equities. Lately, the Nasdaq 100 Index[5], for example, seems to offer a new mind-bending statistic virtually daily. To add one new statistic to the list, in the course of contributing an estimated 30% of the entire S&P 500 Index's[6] 15.29% total return during the first half of 2024, NVIDIA Corp added approximately $1.82 trillion to its own market cap in two quarters. For perspective, this figure rivals the entire market capitalization of Amazon.com Inc, itself one of the greatest corporate success stories of our lifetime. By comparison, it took Amazon roughly two decades to revolutionize, and come to dominate, many areas of consumer retail within the United States, the world's largest economy. More recently Amazon also built one of the world's most dominant cloud computing businesses. NVIDIA's half-year market cap gain also happens to rival the market cap of the entire Russell 2000 Index. Said differently, U.S. public equity markets are currently suggesting that a single company has built roughly as much shareholder value in six months as the 1,001st – 3,000th largest public companies in the U.S. have, in aggregate, built in their entire existence. Rather than debate defenders of the Efficient Market Hypothesis and assertions that these price movements must necessarily result from the actions of "rational investors", it may be entirely sufficient to simply consider the probability of such an incredibly improbable set of events repeating itself. And with large-cap indices now so heavily weighted to such super-normal success stories, the repeatability of such performance is actually quite an important question.

> **"In contrast, investment success generally stems from contrarian impulses. View winners suspiciously; consider reducing or even eliminating previously successful strategies. Eye losers hopefully; consider adding to the out-of-favor approach."**
>
> *David Swensen*

MILE-MARKERS

In recent years U.S. small-cap mutual funds and ETFs have seen material net outflows. It is an unfortunate truism of the mutual fund industry that the average mutual fund investor typically does somewhat less well than the performance of the funds in which they invest. The simple explanation for the incongruous returns is that the average mutual fund investor "chases" the performance of high-performing strategies and exits or reduces those which have performed less well of late. In other words, many mutual fund investors do the opposite of what is advised by many of the world's most successful long-term investors, such as the late David Swensen.

Furthermore, it should be obvious by now that we will not be among those capitulating to large-cap supremacy and we don't believe you should either. We think two forms of historical analysis make an extremely compelling case for the relative attractiveness of U.S. small-cap stocks today:

First, the long-term record of outperformance of U.S. small-cap companies remains extremely compelling. It is only tangential to this section of our letter but cheapness and profitability – both critical components of the Third Avenue approach – also measure very favorably as sources of excess return over long periods of time. Simply put, the long-term quantitative data strongly suggest that these factors have indeed been a path to long-term outperformance. Moreover, it is worth being aware that we are viewing this data following one of the most dominant periods of large-cap and growth stock outperformance in decades and these factor returns still look quite good[2].

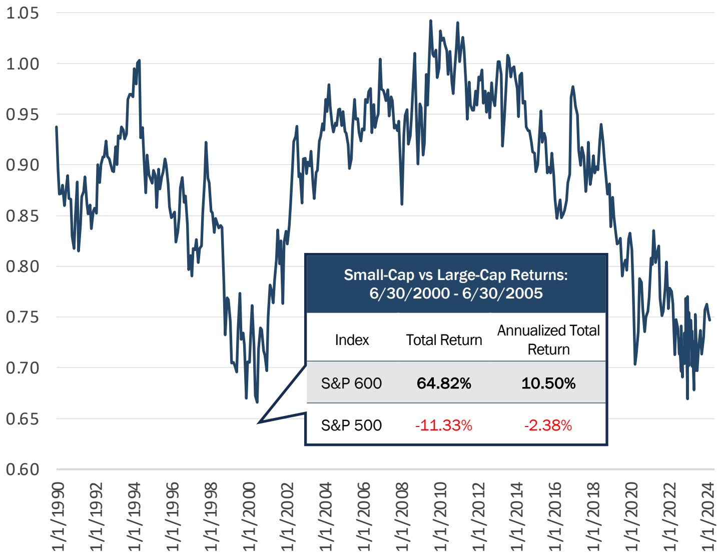
Time Period: July 1963 – December 2023:	Market Return	1. Value Factor	2. Size Factor	3. Profitability Factor
Annualized Return	+10.3%	+13.9%	+12.0%	+14.0%
Premia in excess of Market Return	-	**+3.6%**	**+1.7%**	**+3.7%**

Source: Center for Research in Security Prices (CRSP) database an affiliate of the University of Chicago; Fama/French 5 Factors.

Second, what a wise man does in the beginning, a fool does in the end. Years of rampant large-cap outperformance have driven the relative valuations of large-caps, as compared to small-caps, to an extremely unusual level. In other words, during the last four decades or so, U.S. small-cap stocks have only been valued as cheaply as they are today, relative to large-caps, in one other period. The tech-media-telecom bubble of the late 1990s was the ostensible driver of the previous extreme episode and its implosion was the rectifying force.

> **"…when the same or closely similar circumstances occur again, sometimes in only a few years, they are hailed by a new, often youthful, and always supremely self-confident generation as a brilliant innovative discovery in the financial and larger economic world. There can be few fields of human endeavor in which history counts for so little as in the world of finance."**
>
> *John Kenneth Galbraith*

SMALL-CAP VS LARGE-CAP RELATIVE P/E



Source: Berenberg, Bloomberg. S&P 600[7] small-cap median 12m fwd P/E[8] relative to S&P 500 median 12m fwd P/E

Finally, to numerically illustrate the historical precedent, in the period from late 1999 through mid-2000, U.S. small-cap stocks had been driven to a valuation of only 67% of the valuation of U.S. large-cap stocks, a very unusual occurrence that would not be repeated for more than two decades. The tech-media-telecom bubble burst in early 2000 and that extreme valuation distortion began to normalize. That normalization process resulted in small-cap outperformance, relative to large-cap companies, to the tune of roughly 13% annualized for the next five years (see chart above). It is notable that the stark performance differential was the result of strongly positive absolute returns for small-caps and materially negative returns for large-caps. Today, U.S. small-cap stocks are valued at only 75% of the valuation of large-cap stocks, an extremely unusual level of cheapness, having just recently risen from a level almost identical to lows achieved in 2000.

A SPECIFIC APPROACH TO INVESTING IN SMALL-CAPS

The incentives for investing in small-cap companies do seem very compelling but still, there are no free lunches. Some of the attendant tradeoffs include: (i) more unprofitable companies, a risk which is abnormally prevalent within small-cap indices today, (ii) sensitivity to idiosyncratic and economic risk, (iii) less efficient cost structures and (iv) often more limited and more expensive access to capital markets, which has led to higher bankruptcy occurrence. While these generalized concerns may be valid, they are also some of the features of small-cap investing which, in our view, marry particularly well with Third Avenue's investment approach. A heavy emphasis on the quality of corporate balance sheets remains one of the most foundational principles of the Third Avenue Management investment philosophy developed by Marty Whitman. Avoidance of companies which need constant access to capital, and those which do not control the timing with which they access capital, is critical to avoiding many investing pitfalls, particularly so in small-cap investing where capital access may be more limited in general. As an aside, over the last couple of years, access to capital has become more expensive and slightly scarcer for most U.S. companies. It is our suspicion that the benefits of this component of our investment approach may shine through more over the next decade or so than it has over the last couple of decades.

Furthermore, it may be true that smaller companies, which have less trading volume than large-caps and are often more sensitive to economic and idiosyncratic developments, tend to exhibit more stock price volatility. Many people view that as a bug rather than a feature, but to an opportunistic, contrarian, fundamental, value investor, volatility, and its potential to give rise to significant mispricing, is frequently a key ingredient in the creation of great investment opportunities. Similarly, smaller companies, which generally attract much less Wall Street analytical coverage, can be a less competitive environment for fundamental investors willing to do independent research. A recent article in Barrons, which cites a comprehensive Morningstar study, surmised that this may be a contributing factor leading to a success rate for active managers in small-caps that is nearly double the success rate of active managers in large-caps.

Finally, Marty Whitman also coined the phrase "resource conversion", which he used to describe all manner of corporate actions designed to create shareholder wealth, other than through normal going-concern operations of a company. Marty came to understand that most companies are valued in public markets as though they will exist in their current form indefinitely. But that mentality did not match Marty's experience, which was that most companies periodically go through structural changes, such as mergers and acquisitions, changes in control, recapitalizations, spinoffs, etc. For that reason, analysis of resource conversion possibilities has long been a critical piece of our fundamental work and our discussions with company management teams. Resource conversions in the small-cap universe can be particularly powerful given the increased probability of companies being taken over, in general. We believe our focus on well-capitalized companies with high-quality assets tends to create opportunities for clever management teams to create value independently through resource conversion events and simultaneously tends to attract the interest of acquirers. Lastly, it is also our belief that there tends to be less efficient price-discovery in small-cap stocks, which can sometimes lead to greater mispricing, meaning more deeply discounted stocks, and greater opportunity for outsized returns driven by resource conversion. Within the Fund today there are a number of companies with seemingly attractive resource conversion potential, but we would particularly flag Supernus Pharmaceuticals, Investors Title, and Atlanta Braves Holdings.

ACTIVITY

The Fund did not initiate any new positions during the second quarter. Additional capital was allocated to UniFirst Corporation, Collegium Pharmaceutical, and Supernus Pharmaceuticals. All three companies have continued to demonstrate improving fundamentals not yet reflected in their market values, in our opinion. Kaiser Aluminum Corporation and ProAssurance Corp. were trimmed in response to recent share price performance.

At quarter-end, the Fund held 23 positions, unchanged from the previous quarter end and cash stood at 14.9%.

CONCLUSION

During the quarter, portfolio manager, Vic Cunningham, left the firm and the fund management industry for other pursuits. In stewarding the Fund since late 2017, Vic was a strong torchbearer of the Third Avenue investment approach and a good steward of your capital. We would like to thank Vic for all his contributions to our firm and wish him all the best personally and professionally.

With the Fund's weighted-average discount to our mid-case, conservative estimates of net asset value currently at +17.8%, we are optimistic about the potential value creating scenarios which are currently underway in many of the Fund's portfolio holdings.

We thank you for your continued support and look forward to writing to you again next quarter. In the interim, please don't hesitate to contact us with any questions, comments, or ideas at clientservice@thirdave.com.

Sincerely,
The Third Avenue Small Cap Value Team

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 June 30, 2024 (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: July 23, 2024

[1] **The Russell 2000® Value Index** measures the performance of small-cap value segment of the US equity universe. It includes those Russell 2000® companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2000® Value Index is constructed to provide a comprehensive and unbiased barometer for the small-cap value segment. The index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set and that the represented companies continue to reflect value characteristic. Indexes are not securities that can be purchased or sold.

[2] Eugene Fama and Kenneth French originally published The Cross-Section of Expected Stock Returns in 1992 and estimated the Value Factor to have produced 4.9% annualized excess return and the Size Factor to have produced 3.1% annualized excess return. Following a protracted period of large-cap and growth stock outperformance, annualized excess returns for these factors have been reduced but remain impressive.

[3] **The Russell 1000® Index** measures the performance of the large-cap segment of the US equity universe. It is a subset of the Russell 3000® Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 93% of the Russell 3000® Index, as of the most recent reconstitution. The Russell 1000® Index is constructed to provide a comprehensive and unbiased barometer for the large-cap segment and is completely reconstituted annually to ensure new and growing equities are included.

[4] **The Russell 2000® Index** measures the performance of the small-cap segment of the US equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 7% of the total market capitalization of that index, as of the most recent reconsitution. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

[5] **The Nasdaq-100 Index** includes 100 of the largest domestic and international non-financial companies listed on The Nasdaq Stock Market based on market capitalization. The Index reflects companies across major industry groups including computer hardware and software, telecommunications, retail/wholesale trade and biotechnology. Index composition is reviewed on an annual basis in December.

[6] **The S&P 500 Index** is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

[7] **The S&P Small Cap 600** Index seeks to measure the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable.

[8] **Forward P/E** is a variation of the price-to-earnings ratio that uses an estimate of earnings over the next 12 months to calculate the metric. Unlike the trailing P/E, which uses actual earnings results from the previous 12 months, the forward P/E is based on estimates, and is therefore subject to errors in forecasting.

FUND PERFORMANCE

			Annualized				
	3Mo	1Yr	3Yr	5Yr	10Yr	Inception	Inception Date
Third Ave Small-Cap Value Fund (Inst. Class)	-5.98%	13.56%	7.61%	9.49%	7.17%	8.56%	4/1/1997
Third Ave Small-Cap Value Fund (Inv. Class)	-6.01%	13.28%	7.33%	9.23%	6.90%	8.87%	12/31/2009
Third Ave Small-Cap Value Fund (Z Class)	-5.91%	13.73%	7.72%	9.62%	N/A	7.71	3/1/2018

TOP TEN HOLDINGS

UMB Financial Corp.	7.1%
MYR Group, Inc.	5.2%
Atlanta Braves Holdings, Inc.	4.4%
Tidewater, Inc.	4.4%
Seaboard Corporation	4.2%
FRP Holdings, Inc.	4.1%
Encore Capital Group, Inc.	4.0%
Investors Title Co.	4.0%
Kaiser Aluminum Corporation	4.0%
ProAssurance Corporation	3.9%
TOTAL	**45.3%**

Allocations are subject to change without notice

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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.

The fund's investment objectives, risks, charges, and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling 800-443-1021 or visiting www.thirdave.com. Read it carefully before investing.

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 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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