Portfolio Manager Commentary

SMALL-CAP VALUE FUND

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25 yrs investment experience

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Dear Fellow Shareholders,

The Third Avenue Small-Cap Value Fund (the "Fund") returned 6.53% during the second quarter of 2025, compared to a return of 4.74% for the MSCI USA Small Cap Value Index (the "Index")[1] and 4.96% for the Russell 2000 Value Index[2]. For the trailing three-year and five-year periods, the Fund produced annualized returns of 11.24% and 14.43%, respectively.

PERFORMANCE REVIEW

Performance during the quarter was led by positive contributions from a wide range of businesses. The primary positive contributors to Fund performance were infrastructure engineering company, MYR Group, which continued to take advantage of strong growth in demand for energy infrastructure related to data center construction, as well as from domestic aluminum supplier, Kaiser Aluminum, which benefited from improving aerospace orders and improving pricing power for its products. Other contributors to Fund performance included LSB Industries, an ammonia manufacturer benefiting from tariff-related developments, and our investment in Major League Baseball franchise owner, Atlanta Braves Holdings. In the latter case, several announced ownership transactions for professional sports teams have further highlighted the discounted public market valuation of the company's shares. Finally, Fund performance also benefited from continuing resource conversion activity within the portfolio. Cantaloupe, a payment processing company in which the Fund initiated a new investment earlier in the second quarter, announced that it agreed to be acquired by Providence Equity Partners at a reasonable premium to the prevailing market price.

Detractors from performance this quarter included title insurer, Investors Title, which has exposure to softening residential property transaction activity, and specialty insurance provider, Ambac Financial, which continues to experience a delay in receiving regulatory approval required in order to complete a significant, value enhancing legacy business unit sale to Oaktree Capital Management. Other small detractors from performance included real estate developer, FRP Holdings, appliance manufacturer, Hamilton Beach Brands, and neurology drug company, Supernus Pharmaceuticals.

HAND IN GLOVE – A RESOURCE CONVERSION APPROACH TO U.S. SMALL-CAPS

> **"We have two ways to win. The first, of course, is public market appreciation, which occurs when the general market revalues upward the securities that the Fund owns. The second, and more relevant for us, is private market realizations, or what we at Third Avenue term 'resource conversion'."**
>
> - *Martin J. Whitman*

As we have explained in several previous letters, the opportunity for future outperformance from U.S. small-cap companies, relative to the broader U.S. equity market, looks once-in-a-generation attractive to us. Further, the reality is that even after a lengthy period of recent U.S. small-cap

Performance is shown for the Third Avenue Small-Cap Value Fund (Institutional Class). 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.

underperformance, which is what gave rise to the extreme U.S. small-cap relative undervaluation we observe today, U.S. small-cap companies have still produced attractive outperformance over the long-term. Further, in our preceding *Q1 2025* letter, we scratched at the surface of why somewhat higher levels of individual stock price volatility in U.S. small-caps lends itself to opportunistic value investing in general. Higher levels of volatility increase the probability of significant mispricing, which is one factor at the core of why management perceives small-caps to be an investment universe in which active managers have a reasonable probability of outperformance, as numerous academic studies have shown.

However, we have not recently described how Third Avenue's balance sheet focus (and its very important relationship to resource conversion activity) increases the probability of success, in our view. We believe this to be especially true in the investment universe of U.S. small-caps. To summarize, Third Avenue Management's opportunistic, active, value investing approach is designed to produce outperformance across a range of investment universes, but we think there are specific reasons that the balance sheet focused approach, emphasizing resource conversion activity, lends itself particularly well to U.S. small-cap investing, an area which itself appears unusually attractive today.

There is an argument to be made that a genuine embodiment of "American Exceptionalism" is the unrivalled robustness of its capital market system. Participants in American capital markets include several thousand investment banks, tens of thousands of registered investment advisory firms, roughly 49 trillion dollars of public equity capital, and another 9 trillion dollars of capital committed to private equity strategies, all relentlessly and doggedly seeking potential inefficiencies in public, private and takeover markets. When public companies remain undervalued for stretches of time, they are often taken private or taken over by competing firms. Companies' boards of directors often consent to being taken over in fulfillment of their fiduciary duties but, in the absence of consent, they frequently face the world's most robust hostile takeover market. When private companies have an opportunity to attain higher valuations as listed companies, they are taken public. Companies, business units, tangible assets and intellectual property are all constantly being pulled towards their highest and best use, like water inexorably reacting to gravity. In America, valuation arbitrage and wealth creating transaction activity are pursued with an ideological fervor.

Moreover, we have long viewed the conventional Wall Street analytical practice of forecasting a company's operating results as a strict going-concern as utterly unrealistic. A more realistic view, in our opinion, is that companies are constantly evolving, they are taken over and take over others, lines of business are entered and exited, and companies are being refinanced. Corporate resources are constantly being converted into other uses. The industries in which companies operate are also frequently evolving. In our view, an analytical process that is connected to a realistic view of potential investment outcomes must incorporate a conscientious evaluation of resource conversion potential. We believe this is particularly true within U.S. small-cap investing where the volume of transaction activities can be particularly high and common impediments to transaction activity, such as large deal sizes, consolidated industry structures, or regulatory hurdles, can be very low.

Third Avenue's emphasis on the financial wherewithal of the companies in which we invest offers many benefits, in our view. For example, while one may perceive a company to be a great bargain at the time of investment, to the extent that a company runs short of liquidity and needs to sell assets or raise fresh capital at a difficult time, and from a position of weakness, a great amount of underlying corporate value can be destroyed. Conversely, very well-capitalized companies, run by clever and aligned management teams, can often opportunistically use their balance sheet strength to build significant shareholder wealth. Well-financed companies may repurchase large amounts of their own shares if perceived to be materially undervalued in public markets, or act as the buyer of assets or business units from less well-financed companies in need of liquidity. To the extent a company is faced with an offer to be taken over, it is far preferable to not need to be taken over or otherwise be desperate for new capital. Furthermore, it may be highly intuitive but there is also a body of academic research supporting the idea that being well-financed does improve the probability that a company will find itself the subject of a takeover offer (Ambrose and Megginson, 1992; Espahbodi and Espahbodi, 2003; Powell, 1997; Tunyi 2022). The intuitive logic is manifold. A buyer may be reluctant to take on the balance sheet liabilities of a financially leveraged company, to the extent the buyer wishes to use financial leverage to finance the deal, preexisting financial leverage can be an impediment, and it is frequently the case that financially leveraged companies defer investment, maintenance, or research and development spending, weakening the business and making it a less attractive acquisition candidate.

Furthermore, one factor improving the probability of a company engaging in value-creating resource conversion activity, rather than value-destroying activity, is that the value-creating varieties are more frequently available to companies which have control over the timing at which they act, which is a direct result of financial strength. Companies in immediate need of capital don't control the timing with which they access capital and are only in a position to act on value-enhancing opportunities when they happen to have access to capital to execute upon them. Conversely, for well-financed companies, having a cheap stock and financial wherewithal can obviously set the stage for value-enhancing share buybacks. Being one of the best financed companies in an industry that is going through a cyclical recession may create the opportunity for a clever management team to execute upon purchases of assets or businesses that would otherwise not be available outside of the recession and which are not actionable for peers that are less well-financed. More broadly, with regard to the opportunity to create value through a takeover, or being taken over, or any other form of resource conversion activity, there is virtually no scenario in which it is not preferable to be well-financed. The importance of financial strength and the related control of timing would be difficult to overstate as it relates to the ability to create value through resource conversion activity, especially within U.S. small-caps, an arena marked by an unusually high volume of merger and acquisition activity.

> "**Control your destiny or somebody will.**"
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> - *Jack Welch*

The most recent quarter alone clearly puts on display a number of examples illustrating the causal relationship between the strength of a company's financial position and the likelihood of wealth creating resource conversion. During the quarter, notable resource conversion events spanned companies across technology, healthcare, financials, and industrials, though the presence of a strong balance sheet was certainly a common trait:

1. Cantaloupe agreed to be privatized by private equity sponsor Providence Equity Partners for $848 million in an all-cash deal, representing a +34% premium to its pre-announcement, unaffected closing price.

2. Supernus Pharmaceuticals announced an opportunistic acquisition of Sage Therapeutics, which will be funded by Supernus' $460 million net cash balance. Sage is a company which makes the first and only F.D.A. approved treatment for postpartum depression and, itself, possesses net cash in excess of $420 million as of its most recent filing.

3. Alamo Group completed the acquisition of Ring-O-Matic, a leading provider of industrial vacuum excavation equipment. The purchase was funded with existing cash on hand.

4. UMB Financial reported a strong set of combined financial results during its first full quarter since finalizing a transformational merger with Heartland Financial in January.

ACTIVITY

During the second quarter, the Fund initiated two new positions in niche technology-related industries. Cantaloupe Inc. is a payment processing business and Visteon Corp is an automotive technology company. The Fund also added to a number of existing positions, including Ambac Financial, BlueLinx Holdings, Kaiser Aluminum, and OceanFirst Financial. The Fund reduced several positions but did not entirely exit any. Cash holdings ended the period at 3.2%.

Cantaloupe Inc. ("CTLP") is a leading provider of payments hardware and software solutions to the unattended and self-service retail sector. The company's end markets have expanded over the years from a focus on vending machine transactions, which entail small transaction sizes, to a range of micro markets entailing larger transaction sizes. Importantly, the combination of higher transaction volumes and values, from which CTLP earns a spread, have been a tailwind for CTLP's operating performance. CTLP has a history of competing well in an industry benefiting from automation and labor-saving trends and the growth of self-serve commerce.

Tariff related uncertainty and general concerns about economic outlooks led to widespread U.S. equity market volatility during the quarter and provided the opportunity for Fund management to initiate a position in CTLP after having followed the company closely for over a year. Fund management's attractions to CTLP include a very loyal customer base with extremely high customer retention rates across a range of stable or growing end markets such as car washes, laundromats, parking, vending machines, and arcade games. By retaining its clients in a consistent fashion, CTLP has been able to operate with relatively high forward visibility, offering Fund management relatively reliable forward-looking data points when evaluating the company. Also relevant to the company's valuation is the technology underpinning CTLP's business, which includes a portfolio of valuable patents generally relating to telematic functions. Additionally, a healthy balance sheet and growing profitability fueled by self-help initiatives, leading to expanding operating margins and growing operating cash flow, were also attractions. Furthermore, the potential for continued consolidation within the highly fragmented but secularly growing payments processing industry informed our sense of a reasonable probability that CTLP may eventually be involved in some type of consolidating transaction.

During the second quarter, not long after the Fund established its CTLP position, Providence Equity Partners, a technology-focused private equity firm, agreed to pay $848 million to acquire CTLP. The cash offer, priced at a meaningful premium to the then-prevailing trading price and within our estimated range of net asset value for the company, has been accepted by CTLP's board of directors.

Visteon Corporation ("Visteon"), is an automotive technology company that designs and manufactures automobile cockpit electronics, including instrument clusters, displays and onboard artificial intelligence-based voice assistants. The company has been a standout for growth in the auto supply industry as it benefits from increasing uptake of technology-enabled functionality embedded within digital clusters, cockpit domain controllers, and advanced displays, which appear to still have strong sectoral tailwinds.

At the time of purchase, heavily influenced by acute tariff-related fears surrounding the automotive supply chain, Visteon's valuation assumed little or no growth for the company and appeared to factor in a substantial slowdown in the automotive industry. While tariff implications continue to be evaluated, Visteon's history of cash flow generation, net cash balance sheet, and available liquidity should provide significant staying power and financial flexibility if a difficult environment for the auto sector does develop.

An attraction to Visteon, in addition to the company's balance sheet strength and low valuation, is our perception that Visteon can continue to grow incremental volumes, enhancing scale, supporting positive operating leverage benefits, and increasing margins. Further, the company has refined its capital allocation policy over decades of operation and shown discipline in redeploying free cash flow, including towards substantial share buybacks and consolidating acquisitions.

CONCLUSION

Independent of varying market environments going forward, we expect resource conversion activity to loom large within the U.S. small-cap arena and play an important role in producing returns. We believe that a focus on investing in companies trading at low valuations and with strong financial positions should heighten the probability of beneficial resource conversion activity. The fact that we routinely evaluate the potential for resource conversion as part of our analytical process should certainly not hurt either.

We thank you for your continued confidence and trust. Please don't hesitate to contact us with any questions or comments 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, 2025 (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 17, 2025

[1] **The MSCI USA Small Cap Value Index** captures small cap securities exhibiting overall value style characteristics across the US equity markets. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield. The index is not a security that can be purchased or sold.

[2] **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 characteristics. The index is not a security that can be purchased or sold.

For the Third Avenue Glossary please visit here.

FUND PERFORMANCE

			Annualized				
	3Mo	**1Yr**	**3Yr**	**5Yr**	**10Yr**	**Inception**	**Inception Date**
Third Ave Small-Cap Value Fund (Inst. Class)	6.53%	5.37%	11.24%	14.43%	7.30%	8.45%	4/1/1997
Third Ave Small-Cap Value Fund (Inv. Class)	6.45%	5.09%	10.96%	14.14%	7.03%	8.62%	12/31/2009
Third Ave Small-Cap Value Fund (Z Class)	6.61%	5.45%	11.36%	14.55%	N/A	7.40%	3/1/2018

TOP TEN HOLDINGS

UMB Financial Corp.	6.7%
MYR Group Inc.	6.1%
Atlanta Braves Holdings, Inc.	5.8%
ProAssurance Corp.	5.4%
Investors Title Co.	4.7%
Prosperity Bancshares, Inc.	4.4%
Kaiser Aluminum Corp.	4.4%
Encore Capital Group, Inc.	4.1%
Southside Bancshares, Inc.	3.8%
LSB Industries, Inc.	3.8%
TOTAL	**49.2%**

Allocations are subject to change without notice

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%, 1.51% and 1.18%, respectively, as of March 1, 2025.

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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