Portfolio Manager Commentary

SMALL-CAP VALUE FUND

Victor Cunningham, CFA

29 yrs investment experience

Dear Fellow Shareholders,

Happy New Year! We hope you and your families enjoyed the holiday season.

For the calendar year 2023, the Third Avenue Small-Cap Value Fund (the "Fund") returned 21.88% versus 14.65% for the Fund's most relevant benchmark, the Russell 2000 Value Index[1] (the "index"). For the fourth quarter, the Fund returned 9.38% versus 15.26% for the index. Both the absolute and relative returns for the full year were pleasing. Shifting interest rate outlooks have caused rapid changes in equity prices over the past two years. Given the extremes in 2022 and 2023, reviewing returns over the past two years is useful. In the 2022-2023 period, the Fund generated a cumulative return of 19.66% while the index was down 2.04%. Preserving capital during difficult periods has been beneficial to our shareholders.

Small-cap equities rallied late in the fourth quarter from an anticipated pivot by the Federal Reserve toward lower interest rates. The Russell 2000 Index (small-cap proxy) outperformed the Russell 1000 Index (large-cap proxy) by over 7% in December after a weak November employment report softened investor expectations for higher rates. We were not surprised by the small-cap surge, given the extreme valuation differences between larger companies and smaller companies that we highlighted in our 2023 whitepaper, *You Aren't Getting Paid to Invest in U.S. Large Cap Stocks*. Even with the recent small-cap rally, small-caps still lagged for the year, and valuations remain discounted versus large-caps.

Investors seem to be expecting the gap to normalize further as flows into small-cap ETFs were $10 billion in December, creating an "everything rally" across the asset class. The herd is coming our way, which could be a tailwind for the asset class in general, but we believe selectivity is vitally important. Indiscriminate buying often benefits weaker assets in the short term, and the fourth quarter was no exception. Fourth quarter returns for the Russell 2000 Index were powered by non-earners (up 18.4%), low ROE[2] companies (up 19%), and companies with no sales (up 15%). It was not an ideal environment for conservative, fundamental, investors like us, but we suspect that balance sheets and valuations still matter.

We invest for the long-term, focus on downside protection, and are confident that it is the best way to generate healthy risk-adjusted returns over time. The "everything rally" over the past two months does not change our outlook. Some segments of the market are being repriced, assuming the heady days of 2020-2021 are coming back - we do not share that view. High-yield spreads ended 2023 at just 377 basis points. That is short of the 20-year median rate of 498 basis points and is an indication of investor complacency. Treasury rates may decline in 2024 yet should stabilize at higher levels than we have seen since 2018 with tighter credit conditions. Companies that have not planned for tighter credit will be penalized, and those with strong financial positions should thrive.

Fourth quarter absolute performance for the Fund was driven by banks, real estate holdings, and Hamilton Beach Brands ("HBB"). The banking and real estate sectors were direct beneficiaries of the potential shift in Federal Reserve policy. Lower interest rates should soften deposit cost pressures, which improved the banking sector outlook. Lower interest rates would also lower the cost of buying homes which boosted real estate companies. The Fund's largest position, UMB Financial, and Prosperity Bank, were two of the best performers, rising 35% and 25%, respectively. Despite having

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.

a strong fourth quarter, the Fund's bank holdings, on average, remain 20% below the highs experienced earlier in the year and are still attractively priced. Real estate holdings Tri-Pointe Homes and FRP Holdings also rose 29% and 16.5%, respectively. Finally, we highlighted HBB in previous communications as supply chain woes pressured its balance sheet and market capitalization. Third quarter earnings continued trends established in the second quarter as HBB generated robust cash flow and strengthened its balance sheet. Investors were impressed, prompting a 42% rise in HBB's shares in the fourth quarter. We are particularly proud of HBB's operational rebound as the investment required plenty of attention over the past two years given the dour outlook in the post-Covid economy. Fund Management maintained conviction in the fundamentals, which prompted us to boost the position weighting at opportune times, and ultimately generated healthy returns for our shareholders.

Fund performance was diluted by a handful of company-specific issues. ProAssurance ("PRA") was once again a material performer. This time to the downside. Earnings in 2023 have been inconsistent, creating extreme volatility in the shares. The third quarter results were dismal as a minor segment, Workers' Compensation, required a reserve boost. In addition, book value remains under pressure given rising interest rates, leading to mark-to-market losses on the bond portfolio. Fund Management re-underwrote the security during the quarter and concluded PRA is well-capitalized and overly pessimistic assumptions are currently embedded in its share price. It remains a material position in the Fund and similar to HBB last year, it does not need much operational improvement for the narrative to shift. Incidentally, PRA should also benefit from lower interest rates, reversing mark-to-market losses in the bond portfolio. In addition, Kaiser Aluminum and LSB Industries weighed on results in the wake of poor third quarter earnings. Sphere Entertainment also declined after it announced a convertible bond offering in December to fund growth investments. Fund Management is highly disappointed in this development as we expected the successful opening of the Vegas Sphere venue to lead to harvesting cash flows. The offering put that aspect of the thesis at risk.

Activity

Collegium Pharmaceutical, Inc. ("COLL") was added to the portfolio this past quarter, and the thesis is outlined below. Five Point Holdings was eliminated.

Collegium Pharmaceutical, Inc.

COLL is an abuse-deterrent opioid company. Since entering its commercialization phase in 2019, the company has benefitted by offering a competitive product to OxyContin. COLL's lead drug (Xtampza) does not have a black box warning from the F.D.A. for pain management, which illustrates its lower abuse potential in this critical patient segment. COLL is a company we have been following for years since it announced the acquisition of its #2 competitor, BioDelivery Sciences in 2021. During that time, we have built conviction on the durability and continued growth of COLL's future cash flows. COLL's valuation has remained depressed, along with the broader healthcare sector. This presented a compelling entry point now that COLL has secured significantly higher margin, multi-year payer contracts because of its responsible pain management (as payers move away from Oxycontin). These contract renewals should help COLL build scale and margins and provide a well-defined path to improve its balance sheet.

The Fund initiated the investment when COLL was trading for a mere 3.2x free cash flow[3], or 5.25x trailing enterprise value to trailing EBITDA[4]. In addition to a low absolute valuation, this investment appears to be misunderstood by investors focused purely on earnings who have not taken the time to sift through one-time items (such as settlement agreements and costs related to the extinguishment of debt) that understate the strength of its operating performance. The company has now completed a majority of its multi-year payer contracts at significantly higher margins to COLL. To underscore this development and what the market is missing, if COLL were to run its business as-is and retire its debt, we estimate it could have a $1 billion net cash position by 2027. Furthermore, if their largest potential competitor (Teva Pharmaceuticals) stays out of the market, it could produce another $1 billion of free cash flow over the next three years. The current market capitalization is roughly $1 billion.

Our assessment of management is favorable as well. First, the company is disciplined about costs and maintains a patient capital allocation strategy, which includes two highly successful asset acquisitions under the current CEO. Management has been thoughtful about how it adapts its business over the long-term. COLL has resisted the temptation of short-term price gouging to preserve customer relationships. COLL has now renegotiated 84% of its prescription volume and has maintained 92% of that customer business after the negotiations. This is a testament to the value they bring to the medical community, while not taking advantage of the current OxyContin fallout. Finally, we will wait for validation and are optimistic that management will follow through on its stated willingness to add a capital component (i.e., ROIC) to future compensation programs (see below for a discussion on management performance metrics).

Portfolio Update

There were 25 positions in the Fund at quarter-end, unchanged from September 30, 2023. Cash at quarter-end stood at approximately 6.5%, down from 13% on September 30, 2023.

In our approach to portfolio construction, Fund Management categorizes holdings as either long-term compounders or time-arbitrage/special-situation positions based on the companies' characteristics. At the end of the second quarter, long-term compounders represented approximately 63% of the portfolio, and time-arbitrage/special-situation positions represented approximately 31%.

The Fund's compounder category (or "bucket") includes companies such as Seaboard (conglomerate), MYR Group (engineering and construction), and FRP Holdings (real estate developer/aggregates). We believe balance sheet strength and prudent capital allocation should allow these companies to compound net asset value for many years to come. Financial services companies are roughly half of the compounder category, and well-capitalized regional banks comprise 18% of the total portfolio.

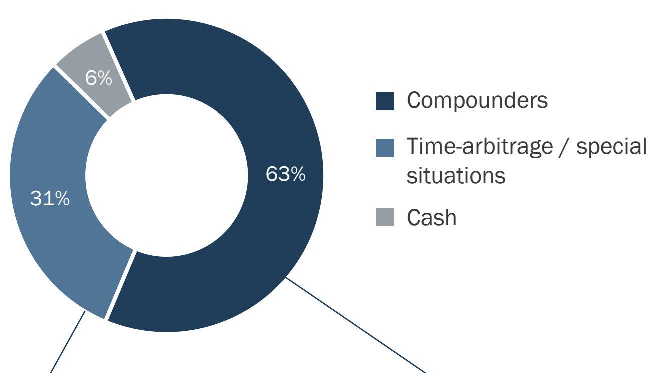
The time-arbitrage/special-situations bucket is predominantly comprised of energy services company Tidewater, real estate-related holdings such as InvenTrust Properties Corp., and other out-of-favor, misunderstood companies such as LSB Industries. These companies are cyclical or misunderstood, but given their strong financial positions, Fund Management believes they have the luxury of time and capital to invest and grow until the clouds dissipate.

The Fund's weighted-average discount to our mid-case, conservative NAV estimates declined to 6% in the third quarter from 11% last quarter.

Following is a visual overview of the portfolio:

ASSET ALLOCATION

As of December 31, 2023



Attributes:
- Spin-offs/post-bankruptcies
- Well-financed
- Cyclical
- Hard-asset support
- Current out-of-favor industries
  - Materials

Attributes:
- Contrarian owner-operators
- Discipline capital allocation
- Well-financed
- Limited cyclicality
- Underfollowed
- Hard-asset support

Portfolio Strategy

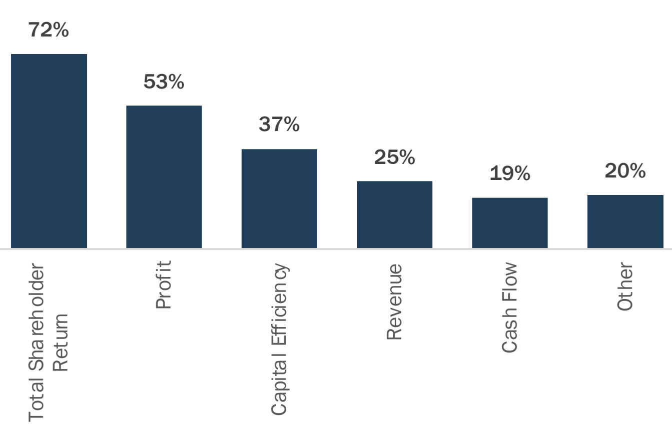
> **"Show me the incentive, and I will show you the outcome."**
>
> *- Charlie Munger, former Vice Chairman of Berkshire Hathaway*

We were saddened by Charlie Munger's passing in November. His relentless pursuit of wisdom combined with brutal honesty are attributes we admire.

Managing information is a challenge facing all investors. Information is endless, and being able to decide what is relevant is a crucial aspect of successful investment outcomes. Scrutinizing a company's annual proxy statement is an essential early step in our process and one that often leads us to companies that share our values. The lead analyst on each current or potential holding is responsible for reading the proxy and communicating findings to the team. In short, we take the proxy process seriously. "Say on Pay" was added to proxy voting as part of the Dodd-Frank reforms in 2010. Shareholders can support management compensation practices as part of that process. According to a 2023 report by the Harvard Law School Forum on Corporate Governance, "Say on Pay" proposals were supported by 92.2% of shares voted for Russell 3000 companies. In contrast, Fund Management has only supported 81% of "Say on Pay" proposals in 2023. Fund Management not only reviews the amount of compensation, but also scrutinizes metrics and hurdle rates when deciding to support management compensation programs.

We have found that the proxy often provides a roadmap for investment success, especially executive compensation plans. We do not believe it is a coincidence that executive compensation plans that emphasize returns on capital or cash flow tend to achieve exceptional outcomes. A September 2023 study by executive compensation consultant FW Cook found only a minority of compensation plans use these critical metrics. Following is a summary of FW Cook's findings on Performance Metrics:

PERFORMANCE METRIC PREVALENCE



Source: FW Cook

The chart above shows that total shareholder return dwarfs other metrics when determining executive compensation. We understand why boards are attracted to the metric as it appears to align compensation to shareholder returns. History has shown that it is an imperfect measure as it tends to drive short-term thinking and can reward management for factors beyond its control. Metrics that focus on the means of shareholder returns rather than the ends, in our experience, seem to lead to better outcomes. The widely followed Valeant Pharmaceuticals saga in 2017 was a textbook example of how strictly incentivizing management on total shareholder return can lead management to reckless decisions. We believe profit is also flawed as a metric if it does not include a cost of capital component. Management can easily grow profits yet destroy long-term value by allocating capital to low-returning investments. We believe Management teams that make decisions to meet flawed objectives often lead to disappointing investment outcomes.

Fund Management reviewed the proxies of our top-performing current holdings over the past five years, attempting to find common incentive compensation metrics. Not surprisingly, return on capital[5] ("ROIC") and free cash flow[6] ("FCF") were used as a compensation metric in four of the top five results. As shown in the following table, the results speak for themselves. These companies have comfortably outperformed the small-cap universe over the past five years. It is noteworthy that not only are the management teams compensated on these metrics, but they also refer to these metrics frequently in investor communications and one-on-one conversations. Thoughtful incentive compensation programs tend to align corporate cultures with shareholders. MYR Group, for example, even includes corporate return on invested capital performance in its quarterly earnings releases. Fund Management believes there is a strong connection between effective incentive compensation programs and operational performance. It is also worth noting that we restricted our analysis to current holdings, yet the last two companies acquired from the Fund in merger and acquisition transactions, Cooper Tire and Rubber and Chase Corporation, used return on capital in their incentive compensation programs.

Company	Ticker	Sector Classification	Proxy Metric	5Yr TRA
MYR Group	MYRG	Construction and Engineering	ROIC	+38.49%
Tidewater Inc	TDW	Oil and Gas Equipment and Services	FCF	+27.62%
Comfort Systems	FIX	Construction and Engineering	FCF	+37.20%
Alamo Group	ALG	Agricultural and Farm Machinery	ROIC	+22.94%
Russell 2000 Index				+9.94%
			Average as of: 12/31/23	+31.56%

Source: FactSet, Bloomberg
The table above is based on the 5-year trailing total return of the underlying securities, this is not based on the Fund's cost basis.

Conclusion

Fund Management recognizes that investing is not easy. As Charlie Munger once said, "It's not supposed to be easy. Anyone who finds it easy is stupid". We agree. Yet, we are always seeking ways to simplify the process and perhaps improve our odds of investment success. Scrutinizing proxies and assessing incentive compensation programs has been a highly effective means of screening for new investment ideas and monitoring portfolio holdings. It is a crucial step in our process and one we will continue to improve.

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,

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.

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, 2023 (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 19, 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.

[2] Return on equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders' equity. Because shareholders' equity is equal to a company's assets minus its debt, ROE is considered the return on net assets. Source Investpedia

[3] Free cash flow (FCF) is the cash a company generates after taking into consideration cash outflows that support its operations and maintain its capital assets

[4] Enterprise multiple, also known as the EV multiple, is a ratio used to determine the value of a company. The enterprise multiple, which is enterprise value divided by earnings before interest, taxes, depreciation, and amortization (EBITDA).

[5] Return on invested capital (ROIC) assesses a company's efficiency in allocating capital to profitable investments. Source: Investopedia

[6] Free cash flow (FCF) represents the cash that a company generates after accounting for cash outflows to support operations and maintain its capital assets. Source: Investopedia

FUND PERFORMANCE

			Annualized				
	3Mo	**1Yr**	**3Yr**	**5Yr**	**10Yr**	**Inception**	**Inception Date**
Third Ave Small-Cap Value Fund (Inst. Class)	9.38%	21.88%	14.62%	12.40%	7.66%	8.73%	4/1/1997
Third Ave Small-Cap Value Fund (Inv. Class)	9.30%	21.58%	14.34%	12.12%	7.39%	9.21%	12/31/2009
Third Ave Small-Cap Value Fund (Z Class)	9.39%	22.03%	14.74%	12.52%	N/A	8.38%	3/1/2018

TOP TEN HOLDINGS

UMB Financial Corp.	7.1%
Tidewater Inc.	5.6%
MYR Group Inc.	5.6%
Encore Capital Group Inc.	4.9%
Seaboard Corp.	4.7%
Atlanta Braves Holdings Inc.	4.6%
Hamilton Beach Brands Holding Co.	4.6%
FRP Holdings Inc.	4.5%
Kaiser Aluminum Corp.	4.5%
ICF International Inc.	4.4%
TOTAL	**50.5%**

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:

THIRD AVENUE
MANAGEMENT

Third Avenue Management

675 Third Avenue, Suite 2900-05
New York, New York 10017

www.thirdave.com

E: clientservice@thirdave.com
P: 212.906.1160

/third-ave-management