



Portfolio Manager Commentary

SMALL-CAP VALUE FUND

Matthew Fine, CFA

*Joined Third Avenue in 2000
24 yrs investment experience*

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29 yrs investment experience*

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*Joined Third Avenue in 2006
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Kaiser Aluminum, SandRidge Energy, and LSB Industries.

QUARTERLY ACTIVITY

During the quarter, the Fund's cash holdings declined to 12.9%, from 14.6% at the end of the preceding quarter. The decline in cash was the result of net buying activity during the period. The Fund trimmed its position in UMB Financial, which remains the Fund's largest holding at quarter end, and exited long-time holding Washington Trust Bancorp. Following these sales, the Fund's holdings in U.S. regional banks stood at 13.9% at quarter end.

Alongside those changes, the Fund also established new positions in two companies, SandRidge Energy ("SandRidge") and PBF Energy ("PBF"). Curiously, while both companies have "energy" in their names and both operate in the oil and gas industry, they have very little in common in terms of fundamental business drivers. We offer more details below but, in a word, SandRidge is a small-cap U.S. oil and gas exploration and production company, which operates a portfolio of producing assets, along with gathering and processing assets. While we believe the SandRidge story offers many interesting details, its business model is one that carries explicit risks and rewards of commodity price fluctuations. Today, SandRidge represents the only Fund holding that bears direct revenue exposure to oil and gas prices. In contrast, PBF operates a portfolio of geographically diverse refineries, which is a business not directly linked to commodity prices per se, but rather to spreads and differentials among commodity prices and refined product prices. In other words, refinery spreads and, in turn, margins, profitability, and cash flows are driven by a wide variety of factors that are not directly linked to oil and gas prices. What does link the two companies together, at least in our minds, is ostensible cheapness as measured by cash flows and replacement value of the assets, as well as the exceptional condition of both companies' balance sheets.

Dear Fellow Shareholders,

The Third Avenue Small-Cap Value Fund (the "Fund") returned +8.35% during the third quarter of 2024, compared to a return of +10.15% 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 +8.30%, as compared to a +9.22% return for the Index.

Performance contributions for the quarter were led by Hamilton Beach Brands, UMB Financial, Investors Title Company, ProAssurance, and Tri Pointe Homes. In addition to UMB Financial, holdings in other regional banking businesses, Southside Bancshares and Prosperity Bancshares, also made important performance contributions. The largest negative contributions to Fund performance during the quarter were generated by MYR Group, Tidewater,

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.

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That said, if one is determined to aggregate SandRidge and PBF, along with long-held offshore energy services company Tidewater, the total portfolio weight combined to 6.4% at quarter end.

SandRidge is an oil and gas exploration and production company focused on the Mid-Continent region of the U.S. The company's public market neglect appears to stem from several sources. Specifically, the company was in bankruptcy as of 2016, it is an oil and gas producer, it is a small-cap company with a market cap of less than \$500 mm, and it is one of several companies held in the Fund with virtually no sell-side coverage.

However, as an investment opportunity, SandRidge does have a number of very attractive things going for it. First, it was available for purchase at a discount to PV-10² valuation, which is a measure of the value of the company's forecasted cash flows from proven reserves, discounted back to present at a 10% discount rate. Furthermore, the company has a significant net cash balance sheet, as well as very large federal and state net operating loss carryforwards, stemming from its bankruptcy process, with which the company can utilize to shelter cash flows from taxes. Additionally, the combination of a net cash balance sheet and huge tax loss carryforwards puts the company in a position to potentially acquire additional Mid-Continent acreage, preferably in proximity to existing acreage, in order to produce attractive returns on the company's capital base as well as to accelerate the usage of its tax assets, enhancing their present value. SandRidge has pushed this plan forward with its recent acquisition of Upland Exploration for \$144mm.

As a going-concern, we estimate that the Fund established a position in Sandridge at a discount to PV-10 and a double-digit free cash flow³ yield. However, we believe that the conversion of its net cash balance sheet into a larger producing asset portfolio, and the utilization of its tax assets, puts the company in a strong position to further enhance shareholder returns. Sandridge also has a demonstrated history of returning significant portions of its cash flows to shareholders via regular and special dividends, a habit we expect to continue. Lastly, there is a reasonable case to be made that U.S. gas prices may not stay low forever, though we will leave that discussion for another time.

PBF Energy is a U.S.-listed independent refiner that owns and operates a geographically diversified, high-complexity refining system, with a 1 million barrels per day of capacity. The company closed on a large, unfortunately timed, debt-financed acquisition in February 2020. The COVID pandemic followed immediately thereafter. In response, PBF was forced to cut its dividend and subsequently took actions to reduce its debt position by \$3.5bn. Yet, in response to challenging operating conditions at the onset of Covid, capacity closures across the industry led to a 1 million barrel per day reduction of U.S. refining capacity. Reduced capacity contributed to a sharp, industrywide improvement in refining margins as conditions quickly recovered. In addition, the company took in its externally managed, midstream logistics vehicle in 2022 and sold a 50% JV interest in a recently converted renewable diesel

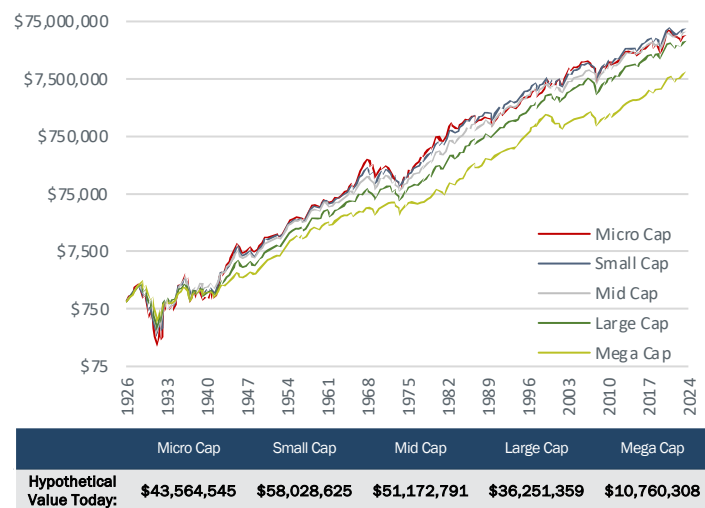
facility to Eni in 2023, raising \$846mn of proceeds. With a much stronger financial position, the company eventually reinstated its dividend and has spent approximately \$1 billion repurchasing 16% of shares outstanding since year-end 2022.

After a significant drawdown in the share price due to a softening near-term outlook, the Fund initiated a position in PBF at a deep discount to our conservative estimate of net asset value, a low multiple to midcycle earnings, and less than one times peak free cash flow. Should operating conditions soften further, PBF's net cash balance sheet and depressed implied valuation could provide the potential for an asymmetric return profile going forward as the near-term outlook eventually improves, the company returns capital to shareholders, or other corporate developments surface value.

PROBABILITIES AND LESS COMPETITIVE MARKETS

At Third Avenue Management, we are among the interested parties who believe the historical evidence of superior long-term investment returns from U.S. small-cap investing is extremely compelling. Like most successful long-term investment approaches, U.S. small-cap investing fails the test of producing consistently superior returns, though readers probably do not need a reminder of recent relative underperformance of U.S. small-caps, as compared to large-caps, after the experience of the last ten years. However, the overall record remains powerful and convincing, in our view. Across the long record-spanning many decades, which include several wars, many recessions, a few outright financial crises, and almost every flavor of interest rate environment one can describe – U.S. small-cap investing has offered very attractive absolute and relative returns. In our opinion, this historical reality greatly diminishes the importance of predicting the timing with which U.S. small-cap stocks may regain relative performance supremacy and alleviates the compulsion to try to identify some type of future circumstance which might catalyze the change.

CRSP DATABASE SIZE QUINTILE PERFORMANCE: 12/31/1926 - 08/30/2024 (LATEST AVAILABLE)



Source: CRSP Database⁴. For illustrative purposes only, Not indicative of any investment. Past performance does not guarantee future returns.



Even if one did mine the historical data and identify environments that correlate well with small-cap performance supremacy, accurately forecasting the timing of a change in the macro-environment is exceptionally difficult, let alone to do so again and again over time. Just to complicate matters a little more, in order to execute a macro-driven investment strategy in public markets, or make portfolio adjustments based on macroeconomic forecasts, one not only needs to accurately forecast the macro or geopolitical event itself, but equally the timing with which other equity market participants will react to the change in circumstances, which may occur in advance of, or lag behind, the event. In other words, if one accurately anticipates the timing of the next recession but many other equity market participants had long been expecting a recession and had, therefore, previously positioned themselves accordingly, equity markets may not react at all, or even in a direction opposed to what one had anticipated. These are incredibly complex concepts and rich fields of study in behavioral finance and expectation theory. Less academically, we are conceptually reminded of John Maynard Keynes famous beauty contest analogy:

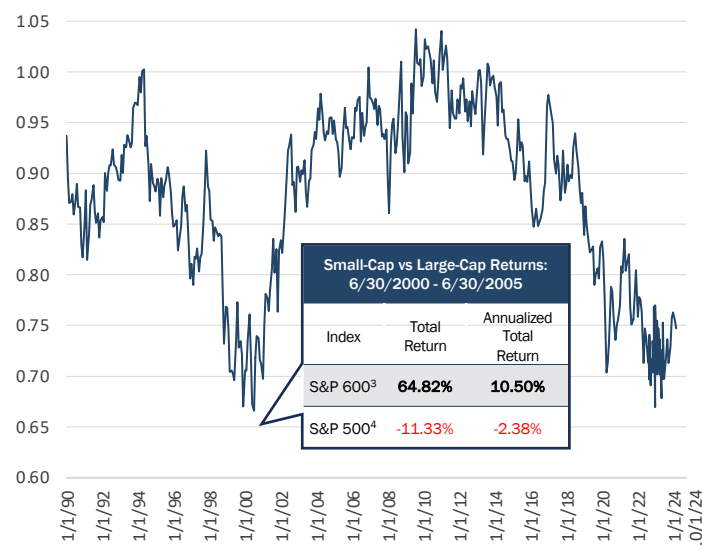
“competitors have to pick out the six prettiest faces from 100 photographs, the prize being awarded to the competitor whose choice most nearly corresponds to the average preferences of the competitors as a whole: so that each competitor has to pick, not those faces that he himself finds prettiest, but those that he thinks likeliest to catch the fancy of the other competitors, all of whom are looking at the problem from the same point of view... We have reached the third degree where we devote our intelligences to anticipating what average opinion expects the average opinion to be.”

We are strongly suggesting that, for the vast majority of investors, us included, one is far more likely to succeed through steadfast implementation of strategies that have demonstrable success over long periods of time - such as small-cap investing and buying cheap companies, i.e., value investing – rather than through structuring portfolios around macroeconomic forecasts. There is no dinner bell that will ring for you when the coast is clear and the near-certainty that the approach we are advocating will cause one to underperform other segments of equity markets or other asset classes periodically in no way damages the strength of the argument.

Still, can't we just sin a little, you say? Maybe there are some mile-markers which suggest that probabilities, from time to time, warrant a little more, or a little less, confidence? It is certainly an understandable line of inquiry after a significant stretch of U.S. small-cap relative underperformance. We will grant you this; probabilistically speaking, the current relative valuation of U.S. small-caps, compared to large-caps, looks exceptionally compelling. Furthermore, the historical record of

small-cap relative performance from such starting points is very encouraging. Today, U.S. small-caps are valued at nearly the cheapest valuation, relative to large-caps, since the dot-com bubble. We say “nearly the cheapest” because small-caps have done pretty well in recent months and relative valuations have improved a bit. In other words, while we remain at unusually low relative valuations today, it is possible that a process of mean reversion has already begun.

SMALL-CAP VS LARGE-CAP RELATIVE PRICE TO EARNINGS RATIO⁵



As of October 1, 2024.

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

Furthermore, it is interesting to look back at the dot-com era experience, the previous instance in which U.S. small-caps were valued as low, relative to large-caps, as they were in May 2023. We would make two simple observations: First, the process of reversion to a more historically normal valuation relationship was wildly powerful in producing small-cap relative outperformance. Secondly, we have been very careful to use the phrase “relative performance” when appropriate in this letter because the reality is that U.S. small-cap *absolute* performance was quite good, both before and after the relative valuation bottomed in June 2000. Moreover, the small-cap returns across the entire 10-year period proved far superior.

PREVIOUS SMALL-CAP TROUGH RELATIVE VALUATION - 6/30/2000

	Performance (annualized)		
	5 years prior	5 years after	10 year period
S&P 600 Index ⁶ (Small Cap)	15.4%	10.5%	12.9%
S&P 500 Index ⁷ (Large Cap)	23.8%	-2.4%	9.9%
S&P 600 Relative	-8.4%	12.9%	3.0%



In other words, the starkly different relative performance periods, up to and after the relative valuation low, were driven much more by super-normal large-cap performance, followed by very poor large-cap performance, than by a major variation in the small-cap absolute performance experience. And for the record, in the trailing 5 years through this past quarter end, the S&P 600 Index produced an annualized return of 10.13%, which is not a bad result in absolute terms.

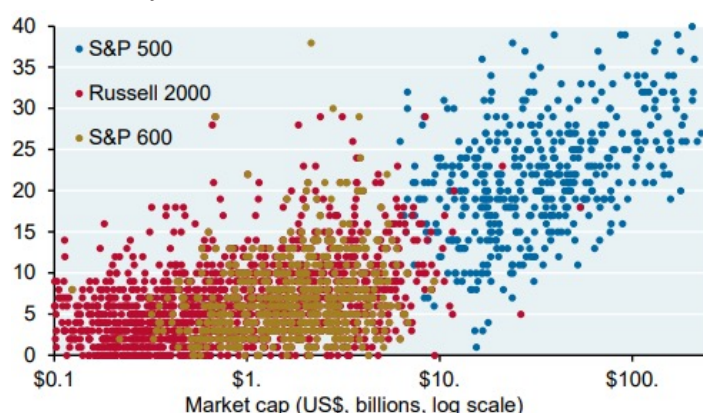
“First, the only certainty is that there is no certainty. Second, every decision, as a consequence, is a matter of weighing probabilities. Third, despite uncertainty we must decide and we must act. And lastly, we need to judge decisions not only on the results, but on how they were made⁸.”

Robert Rubin

Finally, we also believe that there are certain features of small-cap investing that lend themselves particularly well to fundamental, bottom-up, balance sheet-focused, value investing. First, the increased volatility associated with small-caps, which many equity investors recognize as a bug, is actually a very helpful feature for a bargain hunting, long-term value investor, which, in our experience, enhances the prevalence of significant mispricing. Second, in our experience, bargains tend to be found in less well-trafficked areas of financial markets. In U.S. equity markets, there is a very strong positive relationship between the market cap of a company and the number of sell-side analysts covering the company professionally.

ANALYST COVERAGE VS MARKET CAPITALIZATION

Number of analysts



Source: Bloomberg, JPMAM, June 18, 2024

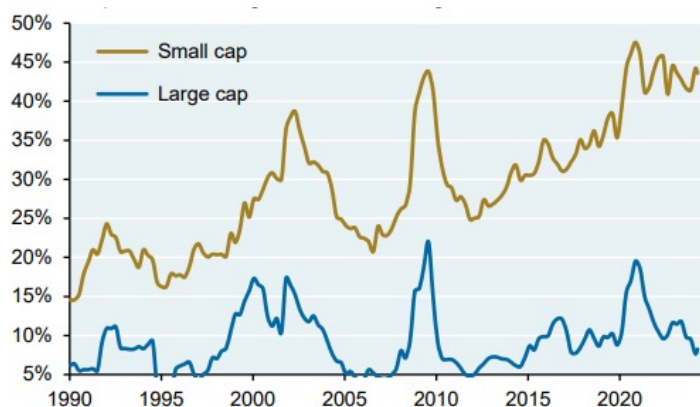
The number of analysts covering a company is not a terrible proxy for the competitiveness of the market for the company's shares. Sell-side firms are for-profit enterprises, generally interested in producing research on companies that are of broad public interest and excitement. Third Avenue Management seeks bargains in companies that are generally

at the other end of the spectrum, i.e., unpopular, out of favor, and of less immediate interest to the broader investment community. Today, the Fund holds 24 investments, of which 15 have less than 5 sell-side analysts covering the company. Five companies in the Fund have no sell-side analyst coverage at all.

Moreover, while many passive approaches to U.S. small-cap investing are, in our view, likely to be better bets than many other means of investing in U.S. equity markets, there are things to consider about the composition of U.S. small-cap indices. Most notably, many small-cap indices today have a far higher percentage of unprofitable companies than large-cap indices, but also far more than they themselves have had in the past. Similarly, U.S. small-cap indices tend to look much worse than large-cap indices on net debt / EBITDA⁹ basis, a statistic related to the prevalence of unprofitable companies in small-cap indices. In other words, while the small-cap arena is, in our view, generally an attractive place in which to compound capital over the long-term, there are aspects of small-cap indices that do beg for caution and discretion. Intuitively, these traits should make small-cap an attractive arena for active management and we see this as arguably even more true today than in the past.

COMPANIES WITH NEGATIVE EARNINGS BY SIZE

% of companies with negative LTM earnings



Source: Factset, JPMAM, May 15, 2024

To conclude, we believe firmly that, for U.S. equity investors, a steadfast focus on smaller-capitalization companies makes sense as standard operating procedure over the long-run. However, we think that relative valuation levels today make the case for small-cap investing all that much more compelling. Further, historical precedent during the last few decades paints a cautionary tale for buying expensive large-cap companies and a very strong relative performance success story for small-cap companies from the last time relative valuation levels similar to today were reached. And finally, features of the small-cap equity investing universe lend themselves particularly well to fundamental, balance sheet-oriented approaches.



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 September 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: October 15, 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 **PV10** is a calculation of the present value of estimated future oil and gas revenues, net of forecasted direct expenses, and discounted at an annual rate of 10%.
- ³ **Free cash flow (FCF)** represents the cash that a company generates after accounting for cash outflows to support its operations and maintain its capital assets.
- ⁴ Methodology includes all CRSP firms incorporated in the US and listed on the NYSE, AMEX, or NASDAQ. Portfolios are constructed at the end of June, using shares and price data at the beginning of the month, by segregating companies into 5 market capitalization quintiles. Returns are calculated on a monthly value weighted basis for each quintile portfolio.
- ⁵ **The price-to-earnings ratio** compares a company's share price with its earnings per share.
- ⁶ **The S&P 600** 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.
- ⁷ **The S&P 500 Index**, or the Standard & Poor's 500 Index, is a market-capitalization-weighted index of the 500 largest publicly-traded companies in the U.S. It is not an exact list of the top 500 U.S. companies by market capitalization because there are other criteria to be included in the index.
- ⁸ [Treasury Secretary Robert E. Rubin Remarks to the University of Pennsylvania Commencement Philadelphia, PA | U.S. Department of the Treasury](#)
- ⁹ **The net debt-to-EBITDA** (earnings before interest depreciation and amortization) ratio is a measurement of leverage, calculated as a company's interest-bearing liabilities minus cash or cash equivalents, divided by its EBITDA.



FUND PERFORMANCE

	3Mo	1Yr	Annualized			Inception	Inception Date
			3Yr	5Yr	10Yr		
Third Ave Small-Cap Value Fund (Inst. Class)	8.35%	18.46%	11.00%	11.01%	8.84%	8.80%	4/1/1997
Third Ave Small-Cap Value Fund (Inv. Class)	8.30%	18.19%	10.72%	10.74%	8.57%	9.30%	12/31/2009
Third Ave Small-Cap Value Fund (Z Class)	8.36%	18.59%	11.11%	11.13%	N/A	8.72%	3/1/2018

TOP TEN HOLDINGS

UMB Financial Corp.	6.2%	Atlanta Braves Holdings, Inc.	4.3%
Hamilton Beach Brands Holding Co.	5.2%	FRP Holdings, Inc.	4.0%
Investors Title Co.	4.8%	MYR Group, Inc.	4.0%
ProAssurance Corporation	4.5%	ICF International	3.9%
Encore Capital Group, Inc.	4.3%	Prosperity Bancshares, Inc.	3.9%
		TOTAL	45.1%

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%, 1.50% and 1.18%, respectively, as of March 1, 2024.

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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