THIRD AVENUE MANAGEMENT

VALUE FUND

RATES, RUSES & REGIME CHANGES

This Third Avenue Management whitepaper is intended to put forth several primary arguments:

- There is a lack of historical evidence supporting a connection between low or falling interest rates and growth investing supremacy
- Discounted cash flow math is interesting but very flawed as a rationalization for the extent of recent growth stock outperformance
- The level and trajectory of interest rates will not govern which public equity strategies outperform over longer periods of time
- Fundamental value investing is a compelling long-term investment approach, independent of one's views on interest rates

INTRODUCTION

Global equity markets, the U.S. in particular, remain virtually all-consumed with the timing and trajectory of rising U.S. Federal Reserve policy rates. Rising interest rates do have wide-ranging implications, particularly for certain forms of investment that have become profoundly reliant upon readily available and continuously cheaper debt financing. Rising rates may also push the U.S. and other economies into recession. Those undercurrents are important and worthy of attention. That said, we are eager to offer a variety of thoughts as they relate to an area where we don't think higher rates matter much at all, namely the highly publicized tug of war taking place in public equity markets, falsely pitting growth strategies against more price-conscious value strategies.

**"It ain't what you don't know that gets you into trouble.
It's what you know for sure that just ain't so."**

Mark Twain

In recent years, the value versus growth pseudo-drama has turned many fundamental, bottom-up investors into novice economists and Fed watchers on the premise that plateauing or declining Fed funds rates will favor the valuations of high-priced, fast-growing companies over those of low-priced, slower growing companies, or vice versa. Even though that is clearly the conventional wisdom of today, we believe the perceived relationship between interest rates and public equity investment strategies to be a ruse that has served to rationalize the extraordinarily high valuations of a subset of public companies during what may well be recorded in history as one of the great speculative bubbles. This causal narrative, even if mostly baseless, has continued to be on full display in early 2023. While we expect that the narrative will die a quiet death at some point, decades of experience leave us well aware of the investment world's potential to create self-fulfilling prophecies. In other words, we acknowledge that if many people continue to believe there to be a causal connection between low-rates and favorable prospects for high-growth investing strategies, even if that understanding patently mistakes correlation and causality, the correlation may stubbornly persist for a period of time until it eventually breaks down.

THE HISTORICAL PERSPECTIVE

Many market observers have been eager to characterize current Fed policy rates and U.S. treasury yields as high. Some also describe current policy rates as highly restrictive. We do not share those views. Leaving aside the question of whether rates are high or restrictive within the context of current levels of

inflation, the current U.S. ten-year yield of 3.46% looks somewhat below a long-term average in the U.S., which we would place in the 4% - 4.5% range. Current rates are indeed high relative to recent history, meaning the period following the Global Financial Crisis, but that period of time was deeply unusual in a historical context and was characterized by extraordinarily low interest rates.

More importantly though, history shows us that low interest rates are not a prerequisite for a growth stock bubble and it is not obvious that public equity markets have shown any historical connection between low interest rates and the outperformance of high-growth equity strategies. This "narrative" connection in equity markets appears relatively new to us. In the last growth stock bubble, which we define as the tech, media and telecom ("TMT") bubble during 1998 - 1999, the Nasdaq Composite Index[1] outperformed the S&P 500 Index[2] by 36.8% per year, while the much broader Russell 3000 Growth Index[3] outperformed Russell 3000 Value Index[4] by 24.6% per year. And yet, the U.S. ten-year yield fell for roughly the first nine months of 1998, from a starting point of approximately 5.7% to a low of 4.16%, and then rose sharply for the next 15 months to end 1999 at 6.44%. There are a couple points to be made here. First, the sharpest upward trajectory of the TMT equity bubble coincided with roughly 5 consecutive quarters of sharply rising interest rates. Second, interest rates during the TMT bubble were neither low by historical standards nor falling.

Moreover, going back a bit further in history, a group of fast-growing, high-quality stocks known as the Nifty Fifty represented the epicenter of the equity market bubble of the 1960s and early 1970s. In this case we saw the bubble form mostly during the 1960s, a decade marked by sharply rising U.S. interest rates. Viewing it through a wider lens, the 1960s were but one decade of rising rates during a rising rate environment lasting roughly four decades from the mid-1940s to the early 1980s. To us, the notion that there is a historical connection between low rates and the outperformance of high-growth stocks appears contrived and lacks historical evidence. There have been strong periods of growth strategy outperformance, and strong periods of value strategy outperformance, in all manner of interest rate environment throughout history. Once in a while, equity market participants just get really carried away and it is not, in our view, dependent upon any particular interest rate environment.

Furthermore, other data nicely highlight radical differences between the TMT bubble and the (provisionally-named) Everything bubble we have just experienced. There is a concept in capital markets called an "equity risk premium" which compares the earnings yield (the inverse of the price-to-earnings ratio) of stocks to the U.S. 10-year treasury yield. In other words, the equity risk premium simultaneously captures the earnings-based valuation of stocks and the interest rate environment in a single statistic. Over the last two decades, the S&P 500 has offered an equity risk premium averaging 3.65%, according to Morgan Stanley. During the recent 2017 – 2021 period, during which the Everything bubble developed, the equity risk premium averaged 3.54%, which is pretty typical in the context of the last two decades, as interest rates fell and stock market multiples expanded (earnings yields fell). Interest rates and earnings yields falling in sync has understandably fed the perception of a causal relationship. In stark contrast, recall our description of interest rates in the 1998 – 1999 periods as "neither low nor falling" at a time when equity market earnings multiples were exploding (earnings yields falling sharply). The earnings yield of the S&P 500 at that time fell well below the yield of the U.S. ten-year yield to produce a negative "equity risk premium", or an "equity risk discount" as it were, of -2.47% at the end of 1999, according to Morgan Stanley. It is a simple and elegant way to show a complete lack of historical relationship between the interest rate environment and growth-stock exuberance.

THE FUNDAMENTAL BUILDING BLOCKS OF VALUATION

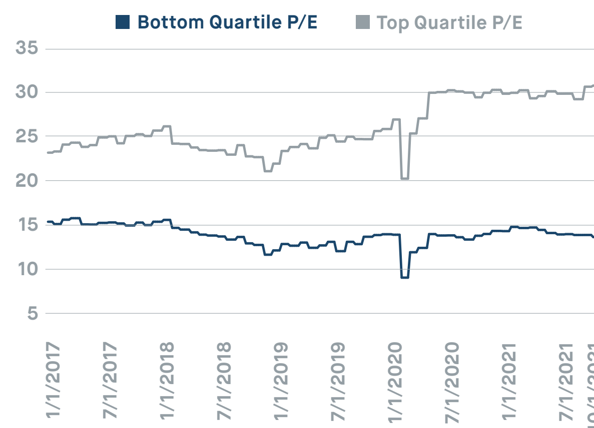
We grant the high-growth strategy proponents this; among the more compelling arguments for high-growth strategy enthusiasm in a low interest rate environment lies in the idiosyncrasies of discounted cash flow ("DCF") math. For the uninitiated, discounting future cash flows, earnings, and dividends represents our capital market system's most foundational tool for valuing a security (or a claim to any type of future cash flow stream). For the purpose of this discussion, all you need to appreciate is that a reasonable person views a $100 bill delivered to them today as more valuable than one to be delivered ten years from now and the higher the return that person demands, the less valuable the $100 bill ten years from now is to them today. What may be less intuitive is that the value today of cash flows

or earnings to be received way out into the future is more sensitive to changes in the required rate of return (discount rate) than the value of cash flows or earnings that will be received in the near future (see appendix for mathematical examples).

In recent years, this DCF-based logic has been eagerly applied in rationalizing the dramatic outperformance of high revenue growth companies that are profitless today but will, allegedly, grow into highly-profitable, fast-growing behemoths. For the sake of this discussion, we will set aside our doubt that some, or even many, of these companies will ever produce the anticipated operating results and our general skepticism of corporate forecasts spanning beyond the next few years. It is true that DCF math, in a general sense, does give credence to the notion that high-growth, long-dated cash flow streams are more sensitive to falling rates and falling required rates of return. However, that logic ignores a very large elephant in the room, namely that falling required rates of return lift the value of all cash flow streams, even if they lift the long-dated ones more. However, this is not at all what happened in U.S. public equity markets during 2017 - 2021. What did happen is that the valuation multiples assigned to the most exorbitantly priced stocks rose sharply, while the multiples assigned to other stocks increased very slightly, or even not at all. The earnings multiple of the least expensive quartile of the S&P 500 actually decreased over that time. In a word, expensive stocks became relentlessly more expensive, while cheap stocks stayed cheap, or even got a bit cheaper.

As depicted to the right, from 2017 - 2021, the price-to-earnings multiple of the most expensive quartile of the S&P 500 expanded from 22.78 to 30.35, while the price-to-earnings multiple of the least expensive quartile of the S&P 500 actually declined from to 14.98 to 13.25. The multiple assigned to the median quartile only increased from 18.45 to 19.59. In summary, it seems quite clear that DCF math wasn't being utilized to justify declining discount rates and rising valuations of stocks broadly, as much as it was being used very narrowly as a rationalization for the extraordinary, and ever-rising, prices assigned to a specific subset of stocks. We are extremely doubtful that most meme stock traders care at all about DCF-based valuations but, to the extent that professional investors are invoking this mathematical reasoning, its validity is substantially diminished by its obvious selective application.

S&P 500 TOP AND BOTTOM QUARTILE P/E[5] MULTIPLES: 2017-2021



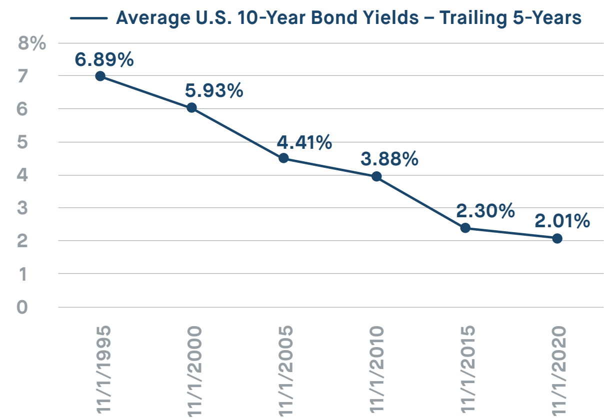
Source: Company Reports, Berenberg

THE VIEW FROM THIRD AVENUE

Today, investors are faced with the very real probability that the investing environment we have grown accustomed to is changing in significant and lasting ways. For the last 14 years, since the Global Financial Crisis, we have lived and invested in a period of extraordinary central bank largesse. Interest rates were recently at levels some argue have never been experienced before. More broadly, we have been in an environment of falling interest rates for over 40 years, a period which was preceded by almost 40 years of rising interest rates. We don't know if we have entered a long period of rising interest rates, as was the case from previous interest rate lows in the 1940s, but it does appear to us that the probabilities are in favor of rates being substantially higher than those experienced during the last decade.

To the extent that one still associates low interest rates with growth stock outperformance, consider for a moment that the Third Avenue Value Fund has essentially operated for its entire 32-year history in a consistently falling interest rate environment. This is by no means an exaggeration. If you view the Fund's entire 32-year history, since inception, in five-year increments, there is not a single five-year period in which the average U.S. ten-year yield was higher than that of the preceding five-year period. We view it as very likely that this uninterrupted multi-decade streak is in the process of ending.

U.S. TEN-YEAR BOND YIELD IN FIVE-YEAR INCREMENTS SINCE TAVFX INCEPTION (INCEPTION DATE 11/1/1990)



Over that same period of time, since the inception of the Fund (through 2/28/2023), the MSCI World Index[6] has produced a total return of 7.83% while the MSCI World Value Index[7] has returned 7.65% and the MSCI World Growth Index has returned 7.78%. Essentially the scorecard reads that the last 30 years has been a draw between growth and value, though one should consider that the measurement period does establish an endpoint following shortly after one of the strongest periods of growth strategy outperformance in many decades. If we stretch the MSCI World Growth versus Value data as far back as data is available (January 1st, 1975) it suggests value strategy outperformance of roughly 0.60% per year over the 48-year period. For its part, the Third Avenue Value Fund has returned 10.18% since inception (as of 2/28/2023), representing substantial outperformance over three decades of falling interest rates, compared to the MSCI World, MSCI World Value and MSCI World Growth indices.

GROWTH OF $10,000 SINCE INCEPTION* (AS OF FEBRUARY 28, 2023)

Performance is shown for the Third Avenue 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.

*Inception for Fund is November 1, 1990.

The gross expense ratio for the Fund's Institutional share class is 1.22%, respectively, as of March 1, 2023. The Adviser has contractually agreed, for a period of one year from the date of the Prospectus, dated March 1, 2023, to defer receipt of advisory fees and/or reimburse Fund expenses in order to limit Net Annual Fund Operating Expenses (exclusive of taxes, interest, brokerage commissions, acquired fund fees and expenses, and extraordinary items) to 1.20% of the average daily net assets of the Institutional Class, Investor Class and Z Class, respectively, subject to later reimbursement by the respective classes in certain circumstances (the "Expense Limitation Agreement"). In general, for a period of up to 36 months from the time of any deferral, reimbursement, or payment pursuant to the above-described contractual expense limitations, the Adviser may recover from each class of the Fund fees deferred and expenses paid to the extent that such repayment would not cause the Net Annual Fund Operating Expenses of each class to exceed the contractual expense limitation amounts set forth above, but any repayment will not include interest. The Expense Limitation Agreement can only be terminated prior to expiration by the independent Trustees of the Fund.

In many ways, we do think this new, more normalized, interest rate environment has important implications, even if the battle for public equity supremacy between growth and value isn't likely to be one of them. It is likely to matter a great deal in areas of finance that are dependent upon liberal use of cheap debt financing and which have benefited enormously from the ability to refinance at ever-cheaper rates and in ever-larger quantities. Private equity buyout strategies and some areas of commercial real estate certainly come to mind.

As it relates to Third Avenue Management specifically, it is important to appreciate that our investment philosophy was developed by our firm founder, Marty Whitman, in the late 1970s and 1980s. Those decades were certainly not an era in which rates were falling steadily and access to debt-financing was becoming ever more available. Having spent decades in the distressed credit and restructuring business during less accommodative interest rate environments, Marty understood that capital can be precious and, at times, very expensive and extremely hard to come by. As a result, our philosophy has always strongly emphasized the financial wherewithal of the businesses in which we invest. The idea is essentially two-fold; i) we don't know if, or when, access to capital will be available to our companies, or at what cost, so we had better be prepared for lean times, especially as contrarian value investors who frequently invest in companies that are out of favor or struggling at the moment and ii) excess corporate resources, such as overcapitalized balance sheets, can be used by clever management teams to create lots of value for shareholders, or otherwise may just be returned to shareholders. Candidly, this philosophical focus has been a headwind for our performance during a consistently falling interest rate environment in recent decades. It hasn't been particularly beneficial to maintain that financial risk aversion, whereas huge gains have accrued to a number of highly leveraged strategies.

However, as interest rates have increased substantially, we do expect a reversal of these long-running trends. In closing, very few portfolio managers today have professional investment experience in an environment in which interest rates rise over a meaningful period of time. We do think that the Third Avenue approach, as bi-product of the firm's heritage, should leave our strategy relatively less vulnerable to rising rates and more restricted access to capital. We do not, however, believe that rising rates have any predictive value as it relates to the supremacy of value strategies versus growth strategies. Further, we believe that substantial changes are afoot and that those in the investment community who have acclimated to the environment of the last ten years, which have been extremely abnormal in the context of financial market history, would be well-served to step back for a broader view. For our part, we intend to remain adaptive, opportunistic, and, above all, unleveraged.

PORTFOLIO SUMMARY CHARACTERISTICS

AS OF 12/31/22

	TAVFX	Index[8]
Weighted Market Cap[9]	$11.1 Billion	$296.7 Billion
Median Market Cap[9]	$3.8 Billion	$16.4 Billion
P/E Trailing 12-Mo[9]	7.2x	18.1x
P/E Adj. Trailing 12-Mo[9]	5.3x	16.0x
Price-to-Sales[9]	0.8x	2.0x
Price-to-Cash Flow[9]	4.4x	10.8x
Price-to-Book[9]	0.9x	2.6x

TOP TEN HOLDINGS AS OF 12/31/22

Allocations are subject to change without notice

	TAVFX
Tidewater, Inc.	6.6%
Warrior Met Coal, Inc.	5.8%
Bank of Ireland Group PLC	5.8%
Capstone Copper Corp.	5.0%
Subsea 7, S.A.	4.7%
S4 Capital PLC	4.7%
Bayerische Motoren Werke AG	4.6%
Deutsche Bank AG	4.3%
CK Hutchison Holdings, Ltd.	3.1%
Buzzi Unicem SpA	2.8%
Total	**47.4%**

FUND PERFORMANCE

AS OF 12/31/22

	3 mo	1 yr	3 yr	5 yr	10 yr	Inception	Inception Date
Third Ave Value Fund (Inst. Class)	26.39%	17.45%	15.69%	6.71%	7.42%	10.39%	11/1/1990
Third Ave Value Fund (Inv. Class)	26.31%	17.12%	15.40%	6.44%	7.15%	6.55%	12/31/2009
Third Ave Value Fund (Z Class)	26.42%	17.57%	15.81%	N/A	N/A	7.06%	3/1/2018

**Performance is shown for the Third Avenue 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. The gross expense ratio for the Fund's Institutional, Investor and Z share classes is 1.22%, 1.47% and 1.16%, respectively as of March 1, 2023.*

PORTFOLIO MANAGER

Matthew Fine, CFA

Strategy Portfolio Manager since 2017
23 years with the Firm
23 years of investment experience

THIRD AVENUE
MANAGEMENT

/third-ave-management

Launched in 1990, Third Avenue's **Value strategy** seeks long term capital appreciation by investing opportunistically across a global universe of sectors, geographies and security types to build a differentiated portfolio of contrarian and special-situation opportunities.

If you would like further information, please visit the strategy page at https://thirdave.com/strategy-tavfx/ or contact a Relationship Manager at:

E: clientservice@thirdave.com **P:** 212.906.1160

APPENDIX

In a simplified illustration, imagine two scenarios to conceptualize discounted cash flow math as it relates to growth versus value strategies:

I) In the first scenario you will receive $10 each year for the next ten years, totaling $100 of payments, representing a cash flow stream that begins in the near-term and remains stable.

II) In the second scenario you will receive $0 each year for the next six years and then over the remaining four years you will receive payments of $10, $20, $30, and $40, totaling $100 of payments, representing a cash flow stream that only begins in the future but then grows rapidly.

If your required rate of return is 8%, the stable cash flow scenario (I) would be worth $67.10 to you today, while the long-term growth scenario (II) would be worth $50.18. However, if we now assume interest rates drop by 2% and your required return drops commensurately (i.e., the equity risk premium remains stable), then your required rate of return could be assumed to fall from 8% to 6%. At a 6% required return, the stable cash flow scenario (I) would now be worth $73.60, or 9.7% more than when your required return was 8%, while the long-term growth scenario (II) would now be worth $59.29, or 18% greater than when your required rate of return was 8%.

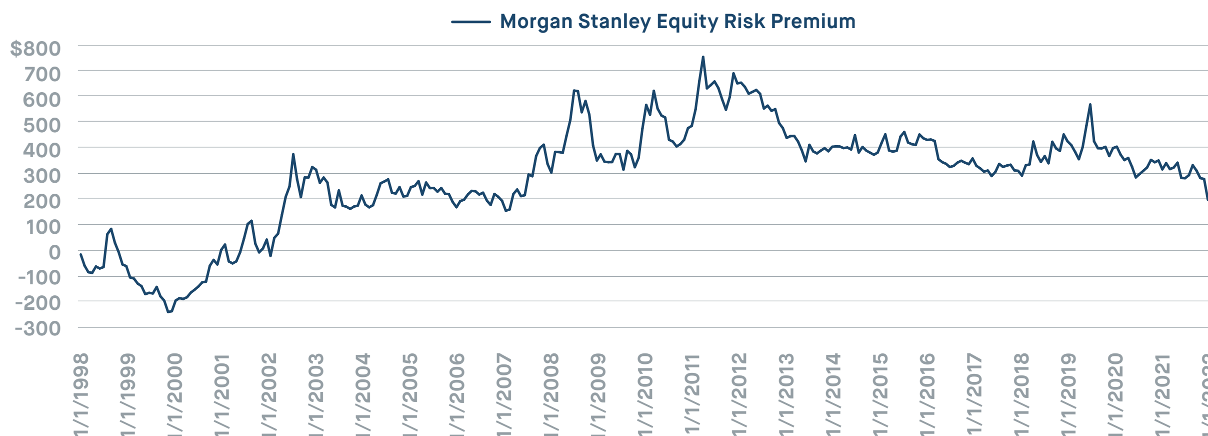
SIMPLIFIED DISCOUNTED CASH FLOW EXAMPLES

Near-Term & Stable Cash Flows		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total
Cash Flows		$10	$10	$10	$10	$10	$10	$10	$10	$10	$10	$100
Discount Rate 1	8.0%											
Present Value 1	$67.10											
Discount Rate 2	6.0%											
Present Value 2	$73.60											
Change in Present Value	9.7%											

Distant & Growing Cash Flows		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total
Cash Flows		$0	$0	$0	$0	$0	$0	$10	$20	$30	$40	$100
Discount Rate 1	8.0%											
Present Value 1	$50.18											
Discount Rate 2	6.0%											
Present Value 2	$59.29											
Change in Present Value	18.2%											

This is a hypothetical example intended for illustrative purposes only. It does not represent the returns of any actual investment or take into account the effects of taxes, fees, or other expenses that would reduce returns. It should not be considered investment advice or a forecast or guarantee or future results. Illustrations of hypothetical principles have inherent limitations and cannot account for future economic conditions. Results may vary. Past performance does not guarantee future results.

HISTORY OF MORGAN STANLEY EQUITY RISK PREMIUM – S&P 500



Source: Company Reports, Morgan Stanley

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, 2022 (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: March 20, 2023

1 The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. Today the NASDAQ Composite includes over 2,500 companies, more than most other stock market indexes. Because it is so broad-based, the Composite is one of the most widely followed and quoted major market indexes.

2 The S&P 500 Index, or Standard & Poor's 500 Index, is a market-capitalization-weighted index of 500 leading publicly traded companies in the U.S.

3 The Russell 3000® Growth Index measures the performance of the broad growth segment of the US equity universe. It includes those Russell 3000 companies with relatively higher price-to-book ratios, higher I/B/E/S forecast medium term (2 year) growth and higher sales per share historical growth (5 years). The Russell 3000® Growth Index is constructed to provide a comprehensive, unbiased and stable barometer of the broad growth market. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics.

4 The Russell 3000® Value Index measures the performance of the broad value segment of the US equity value universe. It includes those Russell 3000 companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium term (2 year) growth and lower sales per share historical growth (5 years). The Russell 3000® Value Index is constructed to provide a comprehensive, unbiased and stable barometer of the broad value market. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics.

5 The price-to-earnings ratio (P/E ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings.

6 The MSCI World Index captures large and mid-cap representation across 23 Developed Markets (DM) countries. With 1,546 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Index performance reported since inception of Institutional Share Class.

7 The MSCI World Value Index captures large and mid-cap securities exhibiting overall value style characteristics across 23 Developed Markets (DM) countries. 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.

8 The "Index" referenced reflects the FTSE All-World Index is a market-capitalization weighted index representing the performance of the large and mid cap stocks from the FTSE Global Equity Index Series and covers 90-95% of the investable market capitalization.

9 Source: FactSet Portfolio Analytics. Based on equity holdings only.

FUND RISKS: 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, and adverse general market conditions. For a full disclosure of principal investment risks, please refer to the Fund's Prospectus.

Past performance is no guarantee of future results. Mutual Fund returns include reinvestment of all distributions. Returns are annualized for periods longer than one year. The returns represent 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 thirdave.com.

Third Avenue Funds are offered only by prospectus. The prospectus contains important information, including investment objectives, risks, advisory fees and expenses. Please read the Prospectus carefully before investing or sending money. For a current Prospectus please visit our website at www.thirdave.com, or call 800-443-1021.

Distributor of Third Avenue Funds: Foreside Fund Services, LLC.