SMALL-CAP VALUE

YOU AREN'T GETTING PAID TO INVEST IN US LARGE CAP STOCKS

THIRD AVENUE MANAGEMENT

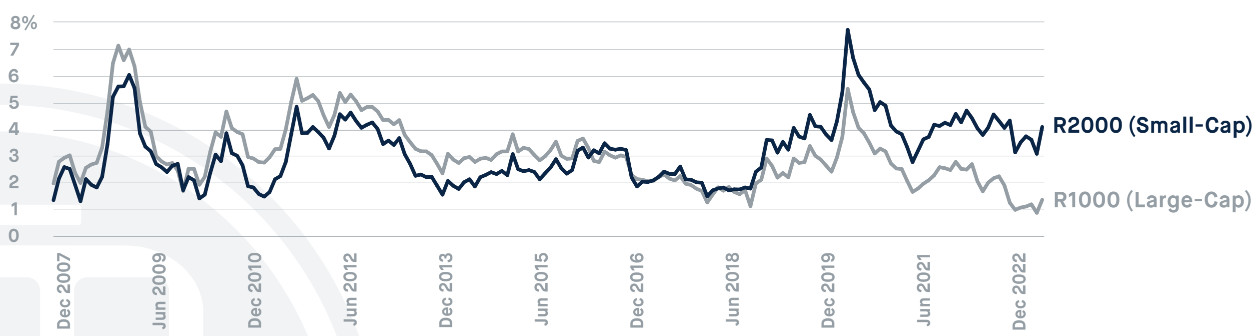
- Risk premiums between small-caps and large-caps have diverged over the past 5 years
- The 4% plus risk premium embedded in small-cap indices has been an attractive entry point over the last 15 years
- Current risk premiums favor investing in small-caps versus large-caps
- Third Avenue Small-Cap Value Fund is even more appealing with embedded risk premiums exceeding both small and large-cap indices

A *Wall Street Journal* article published on April 6th, 2023 highlighted the risk premium of the S&P 500 had recently reached lows last experienced in October 2007 leading up to the Global Financial Crisis ("GFC"). The equity risk premium is defined as the excess return earned by an investor when they invest in the stock market as compared to the risk-free rate. It is calculated by subtracting the current 10-year treasury yield (risk-free rate) from the trailing twelve-month earnings yield. In short, the risk premium is calculated taking the earnings per share divided by the share price, less the risk-free rate.

Using the Russell 1000[1] index as a proxy for US large-cap companies, its equity risk premium was 1.30% as of March 31, 2023. It hit a cycle low of 0.80% earlier in March before rates dropped in the wake of the recent bank closures. That is not only the low since 2017, but also well below the long-term average of 3.09% since December 2007 or the period prior to the GFC. Based on history, we believe investors are not being adequately compensated for the risk of investing in large-cap equities. Large-cap investors should be concerned.

On the other hand, the risk-return tradeoff for small-cap investors tells a different story. The following chart compares the trailing earnings yields less the prevailing 10-year treasury yields of both large-caps (Russell 1000) and small-caps (Russell 2000[2]). As we have discussed in past communications, the correlation between small-caps and large-caps broke down during the mini-taper tantrum in late 2018. The chart below clearly shows the trend has gained momentum since the Covid-19 crisis with large-caps not only outperforming, but also growing more expensive relative to small-caps.

EARNINGS YIELD LESS 10-YEAR; ABOVE AVERAGE FOR SMALL, BELOW AVERAGE FOR LARGE



Source: FactSet; FTSE Russell; Jefferies

CHART SUMMARY

Segment	Index	Risk Premium High	Risk Premium Low	Risk Premium Average	Risk Premium Current
Large-Cap	Russell 1000	7.00%	0.80%	**3.09%**	**1.30%**
Small-Cap	Russell 2000	7.70%	1.24%	**3.00%**	**4.04%**

Time period: December 2007-March 31, 2023

Given a paltry risk premium for large-caps of just 1.30% at March 31, 2023, we believe the risk/return trade-off is poor. In contrast, the 4.04% risk premium for small-caps appears more compelling.

There were five periods where the small-cap risk premium exceeded 4% since the Global Financial Crisis. We measured the forward returns for each period from the last month the 4% risk premium existed. In each case, outside of the Covid-19 period, the forward 1- and 3-year returns were highly attractive.

FORWARD RETURNS FOR RUSSELL 2000 WHEN RISK PREMIUM EXCEEDS 4%

Time Period	1-Yr Forward	3-Yr Forward
March 2009	62.64%	104.21%
December 2011	16.39%	69.48%
November 2012	41.02%	52.34%
October 2019	-0.16%	22.59%
November 2020	21.99%	?
March 2023	?	?

?: Time period has not elapsed yet to perform calculation.
Source: Bloomberg

Fund Management has made the case previously that small-caps have been abandoned by the investment community over the past five years in favor of larger companies. The data above shows the disparity has continued to grow creating disparate risk/return scenarios for small-cap and large-cap investors. History has shown that a 4% risk premium has been an attractive entry point. Using the same methodology, the earnings risk premium embedded in Third Avenue's Small-Cap Value portfolio as of 3/31/23 was 5.31%, which is even more attractive than the broader small-cap index as measured by the Russell 2000. If history repeats itself, small-caps could be an appealing investment option at this point in the cycle.

Fund Management seeks out of favor, underpriced securities as we believe that paying a discounted price is the ultimate determinant of attractive returns. It might be a quaint thought in the momentum environment many investors operate in, but it works over time.

PORTFOLIO SUMMARY CHARACTERISTICS

AS OF 3/31/23

	TASCX	Index[3]
Weighted Market Cap[5]	$2.2 Billion	$2.4 Billion
Median Market Cap[5]	$1.9 Billion	$811 Million
P/E Forward 1 Year[5,6]	13.7x	19.3x
Price-to-Book[5,7]	1.4x	1.2x
Portfolio Turnover[8]	17%	N/A
Active Share[3,4]	98%	N/A
5-Yr Standard Deviation[9]	19.6%	24.5%

OVERALL MORNINGSTAR RATING

★★★★

(TASCX) 4 Stars out of 451 Small Value funds as of 3/31/23, based on risk-adjusted return.

TOP TEN HOLDINGS AS OF 3/31/23

Allocations are subject to change without notice

	TASCX
MYR Group, Inc.	6.6%
Tidewater, Inc.	6.2%
Seaboard Corp.	5.3%
UMB Financial Corp.	5.2%
ProAssurance Corp.	4.9%
FRP Holdings, Inc.	4.4%
Washington Trust Bancorp, Inc.	4.3%
ICF International, Inc.	4.2%
Southside Bancshares, Inc.	4.2%
Encore Capital Group, Inc.	4.0%
Total	**49.3%**

PORTFOLIO MANAGER

Victor "Vic" Cunningham, CFA
Strategy Portfolio Manager since 2017
9 years with the Firm
28 years of investment experience

THIRD AVENUE
MANAGEMENT

Founded in 1997, Third Avenue's **Small-Cap strategy** seeks long-term capital appreciation by investing in equity securities of small-capitalization companies in North America that we believe to be mispriced by the market.

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

/third-ave-management

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

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 March 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: April 28, 2023

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

2 The **Russell 2000® Index** measures the performance of the small-cap segment of the US equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set. Source: FTSE Russell

3 The **Russell 2000 Value Index** measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

4 **Active Share** is the percentage of a fund's portfolio that differs from the benchmark index. Source: FactSet Portfolio Analytics.

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

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

7 The **price-to-book ratio**, or P/B ratio, is a financial ratio used to compare a company's current market value to its book value.

8 For the year ended October 31, 2022.

9 **Standard deviation** is a statistic that measures the dispersion of a dataset relative to its mean and is calculated as the square root of the variance. The standard deviation is calculated as the square root of variance by determining each data point's deviation relative to the mean.

FUND RISKS: Please be aware that small-cap investments are subject to higher volatility and lower financial resources than large-cap investments. The markets for these securities are also less liquid than those for larger companies. For a full disclosure of principal investment risks, please refer to the Fund's Prospectus.

Third Avenue Funds are offered by prospectus only. The prospectus contains important information, including investment objectives, risks, advisory fees and expenses. Please read the prospectus carefully before investing in the Funds. 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 updated information or a copy of our prospectus, please call 1-800-443-1021 or go to our website at www.thirdave.com. Distributor of Third Avenue Funds: Foreside Fund Services, LLC.

Past performance is no guarantee of future results. Current performance results may be lower or higher than performance numbers quoted in certain letters to shareholders.

Overall Morningstar rating, as of March 31, 2023, vs. 451 funds. TASCX was rated against the following numbers of Small Value Category Funds over the following time periods: 451 funds in the last three years, 428 funds in the last five years and 321 funds in the last ten years. With respect to these Small Value funds, TASCX received a Morningstar Rating of 3 stars for the three-year period, 4 stars for the five-year period and 4 stars for the ten-year period, respectively. Ratings based on risk adjusted return. Past performance is no guarantee of future results.

The Morningstar Rating™ for funds, or "star rating," is calculated for mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period has the greatest impact because it is included in all three rating periods.