THIRD AVENUE
MANAGEMENT

THIRD AVENUE SMALL-CAP VALUE FUND

Portfolio Manager Commentary

INSTITUTIONAL: TASCX | INVESTOR: TVSVX

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Dear Fellow Shareholders:

We are pleased to provide you with the report of the Third Avenue Small-Cap Value Fund (the "Fund") for the quarter ended July 31, 2016.

FUNDAMENTAL FOCUS IN THE FACE OF MACRO MANIA

One of our favorite sayings is that most economists make one yearly forecast and fifty-one subsequent weekly revisions. It helps explain why trying to predict macro trends is not part of our investment philosophy. We believe that we are better served by our time-tested philosophy of seeking portfolio companies that exhibit the trifecta of: creditworthiness, the ability to compound book value growth over time, and that trade at a significant discount to our fair value estimate of net asset value ("NAV"). We use these factors not only to determine portfolio inclusion but also position size.

The fiscal third quarter was a good example of why attempts to play the macro game are so often futile. A combination of factors dashed early expectations for economic strength: a weak 2Q16 GDP report at 0.6%; a weaker than expected May U.S. jobs report that disappointed hopes for a near-term U.S. Fed funds increase; and the unexpected Brexit vote to have Britain leave the EU. It all fueled a market sell-off. Then, almost on cue, the market finished the quarter with a strong rally, fueled by an outsized positive June U.S. jobs report that defied market pundits. It was enough to make an investor's head spin. Not around here though, as we stuck to our core philosophy, taking advantages of opportunities without letting ourselves get distracted by the macro noise.

PERFORMANCE

Central Banks Continue to Influence Markets

The Fund returned 5.65% [1] in the quarter vs. 7.65% on the Russell 2000 Value [2]. Calendar year-to-date performance was almost right on index levels at 11.79% vs. 11.81%, respectively. In the quarter, we did not have any significant detractors. The largest detractor, Visteon Corporation, had relative underperformance of 49 basis points to the benchmark as it consolidated strong year-to-date gains.

The decision by the U.S. Fed to defer a rate increase this summer, along with indications of even more aggressive monetary easing by several leading central banks, including Britain, Japan and the EU, respectively, provided markets with the equivalent of another massive shot of quantitative easing (QE). This prompted a rally for the quarter at companies in interest rate sensitive sectors (REITS +14.17%, Utilities +9.65%, Consumer Staples +13.07%). While we have reviewed the interest rate sensitive sectors, we see little upside valuation opportunities. These sectors seemed stretched by investors hungry for yield, with U.S. 10-year yield touching recent lows in the quarter at 1.37%. We believe these macro sector moves should normalize over time.

ACTIVITY

Volatility Provided Opportunity

We had a very active quarter, initiating positions in three new companies, building positions in 10 existing holdings and trimming positions in 23 companies. Although the three additions are all classified as consumer names, we do not see an over-arching theme. Rather, this is an example of where index sector labels can be misleading. We view these additions as three distinct businesses, and one of them, SP Plus, is a truly unique business, as we discuss below.

The three largest additions to owned companies during the quarter were in Interface, NetScout and WCI Communities. We continued to opportunistically build our position sizes in Interface and NetScout, which were initiated in 2Q16. We took advantage of weakness in WCI Communities created by a slow spring home selling season in Florida to increase our position at a compelling discount to tangible book value.

The three largest trims were in Broadridge, CST Brands and FTI Consulting, all due to significant price increases. It is notable that we were able to add to both CST Brands and FTI Consulting on weakness in fourth-quarter 2015, which is an example of price-disciplined position sizing and patient buying in portfolio construction.

Portfolio holdings are subject to change without notice. The following is a list of Third Avenue Small-Cap Value Fund's 10 largest issuers, and the percentage of the total net assets each represented, as of July 31, 2016: Commerce Bancshares, Inc., 2.70%; Multi-Color Corp., 2.70%; ICF International Inc., 2.55%; UMB Financial Corp., 2.54%; FTI Consulting, Inc., 2.33%; Anixter International Inc., 2.29%; Emcor Group Inc., 2.28%; Cubic Corp., 2.27%; Southside Bancshares Inc., 2.19%; WCI Communities Inc., 2.19%

1 The Fund's Institutional share class one year, five year and ten year average annual returns for the period ended July 31, 2016 were 1.34%, 8.81%, and 5.11%, respectively. The Fund's Institutional share class one year, five year and ten year average annual returns for the period ended June 30, 2016 were -4.65%, 7.52% and 4.51%, respectively. 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. The Fund's total operating expense ratio, gross of any fee waivers or expense reimbursements, was 1.14%, as of October 31, 2015. 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. Prospect uses contain more complete information on management fees, distribution charges, and other expenses. Please read the Prospectus carefully before investing or sending money. For current Fund performance or a copy of the Prospectus please visit our website: www.thirdave.com or call 800-443-1021. M.J.Whitman LLC, Distributor. Member FINRA/ SIPC.

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

NEW POSITIONS

G-III Apparel Group

G-III Apparel Group ("G-III") is a designer, manufacturer, and marketer of men's and women's apparel. While not a household name, the numerous brands G-III works with very much are, including Calvin Klein and Tommy Hilfiger. G-III was founded in the 1950s and today is one of the larger companies in the apparel industry with more than $2 billion of annual sales and a remarkable track record.

Perhaps the aspect that attracted us most to G-III is its increasingly strong opportunities for growth. In particular, it was recently awarded the license for the Tommy Hilfiger North America women's line. Hilfiger's licensor, PVH Corp., awarded G-III the license in recognition of the strong growth G-III has been able to generate for Calvin Klein. PVH awarded the Klein licenses to G-III over the last decade, and if past is prologue, Hilfiger could be a billion dollar sales opportunity for G-III. G-III has also added other prominent brands to its portfolio, including Karl Lagerfeld and G.H. Bass, some licensed and some fully owned. Company management believes Lagerfeld and Bass alone represent an opportunity to grow G-III sales about a billion dollars over the coming years. Simultaneously, e-commerce represents a large opportunity for G-III as it is very actively expanding business through the websites of department stores and Amazon, unlike many of its apparel peers.

In addition to G-III's outlook for growth, we would highlight management's strength, long tenure and extraordinary track record. The Goldfarb family, founders of G-III, is one of the largest shareholders and continues to lead the company. In an industry where outperformance over the long-term is rare, G-III and its management team have developed a reputation for superior design and merchandise quality at compelling price points, with best-in-class sourcing from around the world. Along the way, it has stayed disciplined, maintaining a strong balance sheet. This has resulted in exceptional compounding of the company's book value over time at annualized rates around 20%.

With the tough year many department stores have had, it is noteworthy that G-III continues to perform remarkably well within stores with its products. That said, we believe the tough apparel landscape broadly has weighed on G-III's share price this year and helped create the opportunity for our investment. While the cyclical pressures in the broader apparel sector will likely not quickly abate, we took the opportunity to meet with management recently and concluded that at the undemanding valuation of 9-10x EBIT, this was a very attractive long-term opportunity for the Fund.

Subsequent to our initial investment in G-III, the company announced the acquisition of another iconic brand, Donna Karan and DKNY. While the acquisition and associated first year earnings per share dilution caught some investors by surprise and resulted in selling, we took the opportunity to continue to slowly build our position on the weakness. We believe the Donna Karan acquisition has extended G-III's sales growth trajectory well beyond Tommy Hilfiger and Karl Lagerfeld and provided a greater likelihood of G-III's ability to compound value over the long-term despite the current retail sector softness.

Fiesta Restaurant Group

Fiesta Restaurant Group ("Fiesta") was spun-off from Carrols Restaurant Group in 2012 and now operates two restaurant brands, Pollo Tropical and Taco Cabana. Both brands have had success in core markets, with 85% of Pollo Tropical's restaurants in Florida and 99% of Taco Cabana's in Texas. The company is now expanding into other regions. Both restaurants are well-positioned to benefit from the healthy diet trend. Pollo Tropical is one of the fastest growing ethnic food choices over the past 15 years as it takes advantage of diners' growing demand for Caribbean cuisine. Taco Cabana offers freshly prepared and authentic Mexican food and many of its restaurants are open 24 hours a day.

Restaurant-level results have been outstanding. Pollo Tropical's average annual sales per restaurant are $2.6 million. Taco Cabana's $1.9 million per restaurant compares favorably to much larger competitors Chipotle and Qdoba. The company plans to expand its current small footprint (344 locations for the two restaurants combined, split evenly at 172 locations apiece), by adding 8-10% to its store base every year. Unlike many of its peers, Fiesta's balance sheet is healthy. It hasn't overindulged in debt to fund its expansion. The company has a history of generating ample operating cash flow and compounding book value.

Fiesta is reviewing plans to spin-off Taco Cabana which we view as a positive, as both brands are strong enough to stand on their own. With Fiesta trading at the low-end of its historical EV/EBITDA and EV/Sales multiples and at a discount to peers, we view the company and its assets at this price as attractive now, as well as after a spin-off of Taco Cabana. We initiated a position in Fiesta below $22 per share, a substantial discount to our conservative estimate of NAV.

SP Plus

After merging with Central Parking in 2013, effectively doubling its size, SP Plus ("SP") is now the largest parking company in the U.S. In its main business, which contributes about 72% of total EBITDA, SP Plus manages 3,900 parking facilities encompassing some 2 million parking spaces in 346 cities around the country. Its clients include property owners and institutions such as municipalities, corporations, hotels, hospitals and universities. The company earns fees based on its general parking and labor management expertise. The revenue base is very stable because most of the contracts are independent of volume. SP leases about 20% of the garages and assumes all business risks. In its corporate name, the word "Plus" refers to related services like managing airport parking and

We like this company because of its cash flow stability, consolidation opportunities for stronger players, and economies of scale. Some 90% of contracts are renewed each year. Since the company collects money from parkers upfront and keeps its share before submitting the remaining to clients, the business doesn't require working capital. While it is the largest player, SP's market share is only about 10%, which leaves plenty of opportunity for growth through mergers and acquisitions. Being larger helps establish brand names and also offers advantages on schedule optimization and purchases.

We are particularly interested in SP at this time because management has completed the merger integration and now has started to focus on growth and improving margins and cash flows. Based on our estimate, we think the stock is worth at least $30 a share, with potential to be higher as management builds out its franchise.

Seaboard Corporation

We actually initiated our investment in Seaboard Corporation ("Seaboard") with a small weighting at the end of 2Q16 and continued to build our position in 3Q16. Seaboard is a diverse global agribusiness and transportation company. In the U.S., Seaboard is primarily engaged in pork production and processing as well as ocean cargo shipping. Overseas, Seaboard engages in commodity merchandising, grain processing, sugar production and electric power generation. Seaboard also has a 52% interest in the turkey company Butterball, a brand very well-known to many consumers in the U.S.

Despite what we see as high investor neglect of Seaboard due to low name recognition among most investors, we were drawn to the company by the stable demand for its products and services and its impressive asset portfolio, which has allowed Seaboard to compound its book value at double-digit rates over the long-term. The opportunity to invest was presented largely due to a challenged 2015 for the company when industry pork production outgrew demand. This resulted in a decline in pork prices and weighed on the company's profits and stock price.

We believe the double-digit returns Seaboard previously generated in this business are poised to return with a rebound in pork prices and stable production costs. Part of our confidence in the long-term outlook comes from the fact that Seaboard has been extremely well-managed by the same Bresky family since 1918, which still owns a majority of the company. In addition to being strong operators, Seaboard's management has proven to be very adept investors, making opportunistic acquisitions such as Butterball while also maintaining a very strong balance sheet. The company currently carries a large net-cash balance, supporting creditworthiness and downside protection.

We were able to invest in the company at a price around the company's book value, which we view as very attractive given the quality of its assets and management's track record of building shareholder value. We would also note that we believe Seaboard has a hidden asset of sorts in Butterball, given the carrying value is substantially below private market values, based on our analysis.

NAVIGATING A SHORT-TERM WORLD WITH A LONG-TERM VIEW

While we don't try to predict market volatility, we do know it will always exist. This is why we focus on companies with balance sheets able to survive turmoil without incurring financial stress and that have the ability to grow book values over the long-term. With this view, our philosophy and process allows us to take advantage of short-term moves that may contrast with our long-term views.

As we look forward to the back half of the year, we remain excited about the potential for our portfolio, especially about the outlook for our top holdings – some of which we have not profiled recently. Our largest position at quarter-end, Commerce Bancshares, is a solid example of steady compounding with a stellar management team that has built a leading Midwest U.S. regional bank powerhouse. Multicolor, our second-largest holding, is a relatively unknown gem. Its labeling franchises have leadership positions in technologies like pressure-sensitive and heat transfer adhesion, which the company is using to help propel global expansion with a focus on emerging markets.

The impact of Brexit on markets was short-lived. Is there more to come? We won't try to predict. We prefer to keep our eye on company fundamentals and the long-term, as we have always done, and leave short-term macro predictions to others.

Again, we thank you for your trust and support and look forward to writing to you again at the close of our fiscal year in October.

Sincerely,

The Third Avenue Small-Cap Value Team

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Lead Portfolio Manager

Tim Bui
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