THIRD AVENUE
MANAGEMENT

THIRD AVENUE SMALL-CAP VALUE FUND

Portfolio Manager Commentary

INSTITUTIONAL: TASCX | INVESTOR: TVSVX

October 31, 2016

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Tim Bui, CFA | Portfolio Manager

Dear Fellow Shareholders:

On November 10th, we were excited to host Third Avenue's 19th Annual Value Equity Conference. It was a pleasure to see and speak with all of you that attended. As we reflect on the quarter and the conference, we want to share some thoughts from the day for those of you who could not attend.

One question that we received, and indeed we hear a lot from clients, is on the topic of idea generation and whether it is getting harder to find compelling investment opportunities for small cap given the developments such as passive investing or rapidly changing investor sentiment.

In actuality, we think the reverse is true for several reasons. We believe that there is a higher level of investor neglect in the small cap space, and neglect, in an investment sense, creates valuation discounts from fair value. Small cap names are less well-known and understood. For example, most of you have never heard of Cubic Corporation (CUB), but you have likely used the public transportation systems in New York, London, Sydney, etc. that rely on Cubic for fare collection services. Likewise, Multi-Color is a confusing name for the second largest label maker in the world. To understand these businesses, investors need to dig a little deeper with active fundamental research - a Third Avenue strength.

Other factors leading to neglect and opportunity for the Third Avenue Small Cap Value Fund (the "Fund"), are seen in the fact that many of our portfolio companies are not represented in our primary benchmark, the Russell 2000 Value, reflecting our increased opportunity set. Many small companies have limited, or no, sell-side Wall Street research coverage. Our investment philosophy and our active research efforts are well-structured to identify, analyze and capitalize on this neglect through concentrated portfolios that, by their nature, produce a high measure of Active Share. Indeed, the rise of passive investing, which Marty Whitman pointed out at our conference "assigns a premium to being ignorant" in our view actually increases the opportunities to find overlooked and undervalued securities that meet our investment criteria.

Multi-Color Corporation (LABL) [1] is a good example of a name that is not in our benchmark and is a high conviction top ten holding for the Fund. The company produces numerous types of labels for a variety of consumer products, such as detergent, wine bottles, motor oil, etc. Multi-Color meets the tenets of our investment philosophy of creditworthiness, book value compounding and a discounted valuation.

On the first tenet, Multi-Color has manageable debt. Our companies must have the wherewithal to weather economic cyclicality as well as the ability to take advantage of opportunities within their industry. Excessive debt brings more than financial risk. Many companies have declined in value not because they could not repay their debt, but because they did not have left over money to reinvest to develop new products or keep up with innovations.

On the second tenet, Multi-Color has compounded value over time through both increasing margins and expanding into new markets. Many consumer products are indeed judged by their label "covers," and thus, labels serve a low-cost but critical role in marketing and counterfeit protection. The label cost is low relative to the product and price is not a top decision criteria for customers. The outlook for compounding should exist for many years, spurred by world-wide growth of consumer products.

The stock was inexpensive when we bought it in 2014 at about $40, fitting our discounted valuation tenet. We think today's valuation at around $70 is still compelling due to its growth potential and its solid financial base.

Cubic Corp (CUB), another top holding for the Fund, is a small company with about $1.1 billion in market cap that has three main businesses: military communication equipment, military training (for example, they run the Top Gun flight school), and in our view the most interesting part is its transportation segment. The company's transportation segment is the world leader in design and management of public bus and subway systems, handling the fare systems for major cities such as London, New York City, Chicago, and Vancouver. Cubic is also leading technology efforts, such as smart phone payments and dynamic re-routing, to help keep us all on time for work.

The company meets all of our requirements, with low (and declining) financial leverage, highly visible means to compound earnings and book value growth. And, at $43 per share, we think the stock is very under-valued, with upside to north of $60 within a couple of years.

1 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 October 31, 2016: WCI Communities Inc., 3.1%; Commerce Bancshares, Inc., 3.0%; UMB Financial Corp., 3.0%; ICF International Inc., 2.6%; Emcor Group Inc., 2.6%; Standard Motor Products Inc., 2.5%; Cubic Corp., 2.5%; Southside Bancshares Inc., 2.4%; Multi-Color Corp., 2.4%; Visteon Corp., 2.2%.

FUND PERFORMANCE

In the fiscal fourth-quarter ended October 31, 2016, the Fund returned 0.05% vs. the Russell 2000 Value at -0.10%. For the fiscal year, the Fund returned 6.95% vs. 8.81% on the Russell 2000 Value. The top contributing sector was Consumer Discretionary which added 169 basis points on a relative basis, while the Technology sector detracted 154 basis points.

The top performing names during the quarter were WCIC Communities (WCIC), Standard Motor Products (SMP) and Viad Corporation (VVI). WCIC was the big news of the quarter after the announcement that it was acquired by Lennar Corporation for $23.50 per share on a ½ cash and ½ stock basis. We were thrilled by the announcement and remain happy to hold the stock given our knowledge of and outlook for Lennar Corporation, a top holding of the Third Avenue Real Estate Fund and a new buy for the Third Avenue Value Fund in the fourth quarter. Standard Motor outperformed due to increased miles driven and hotter weather, both factors that drove strong revenue growth. Viad continues to benefit from share gains in trade show production and also from its destination vacation offerings in Canada.

G-III Apparel Group (GIII) led the detractors, as warm fall weather provided a short-term earnings headwind for its colder weather focused divisions. Looking forward, our conviction remains high as seasonal weather will pass and, once again, investors will likely focus on its core and growing brands in Calvin Klein Women's, Tommy Hilfiger Women's and soon-to-be-owned Donna Karan. Brookdale Senior Living (BKD) posted a weak third quarter on lower resident volumes, but we like the strong pricing growth and real estate monetization efforts that should benefit looking forward. Syntel (SYNT) declined post third quarter with somewhat softer growth in its financial client vertical, but we think the outlook for its low cost and digital offerings remains compelling. We do note that in the quarter, Syntel paid a $15 per share cash dividend and the company continues to repurchase its shares.

NEW POSITIONS

Comfort Systems International (FIX)

Beyond a strong balance sheet, other key characteristics that we look for in our companies include a strong business model and a large addressable market to support long-term revenue and earnings compounding. Our addition of Comfort Systems USA (FIX) is a good example of these factors. Comfort Systems offers design, installation, retrofit and service for HVAC and electrical systems for facilities such as office buildings, plants, retail centers, hospitals and universities. Comfort Systems is unique in that it focuses mostly in smaller cities where, relative to large urban settings, there is less competition for both projects and for skilled labor. The company works on approximately 4,000 jobs annually and most of the contracts are under $1 million. More than half of these are for renovations and repairs and are recurring in nature, rather than from new constructions.

The outlook for revenue growth is solid, as the aging existing HVAC stock in the U.S. should provide a good organic growth rate of approximately 3 to 5% annually over many years. We particularly like the management team's skillset in acquiring smaller competitors to add geographic coverage and achieve operational synergies. Management buys small, local competitors that earn only 2 or 3% operating margins (the margins are low in this business because they include pass-through equipment costs) and pay only 5-6X EBITDA. After overlaying Comfort Systems' buying power and operational standards, margins of the acquired companies normally double to 4-6% after a year, effectively cutting the purchase price in half. We think that a combination of a solid core business, operational leverage and large acquisition opportunities will provide higher sales and higher margins for many years. Net of cash, the company has no debt. At our purchase price of just over $28, we see solid upside to our mid-$30's estimate of fair value NAV, with a solid outlook for book value growth and a 6.2% free cash flow yield.

Korn Ferry (KFY)

Many of you may recognize the strong brand name of Korn Ferry International (KFY), another purchase in the quarter, but you may not have noticed the business transformation the company has undertaken anchored by its December 2015 purchase of the Hay Group. Korn Ferry is best known for its executive recruiting. It is a top brand name in this highly fragmented industry, with a strong offering on the more resilient and niche C-suite space. Most of its job searches have annual compensation of $300,000 or more.

With the acquisition of the Hay Group, Korn Ferry has leveraged this valuable network at the C-suite level and brought critical mass to its human resources advisory businesses. The goal is to engage more with its corporate clients beyond placing top level personnel and to provide a more stable revenue stream than a purely search-driven business model. When acquired, Hay Group earned an uninspiring 8% on its revenue, or $40 million in EBITDA. 11 months after the integration, the Hay Group has begun to deliver on its projected benefits and synergies. We estimate that Hay's EBITDA margin already improved from 8% to 12%, and should continue to grow to 15-16% over the next two years.

Additionally, Korn Ferry has also expanded into mid-level recruiting and recruitment process outsourcing via its Futurestep segment where it is leveraging its connections with large clients. While Futurestep is still small, contributing only about 10% of total earnings, it has high growth potential.

2 **Please see Appendix for performance table and information.**

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.

Korn Ferry is a strong cash generator and still retains a net cash position on its solid balance sheet. We feel that investors underappreciate the new Korn Ferry in its financial strength and in the transformation brought by the Hay Group and Futurestep, both of which materially lessen the volatility of the core search business while also supporting broader revenue growth and earnings power. At our purchase cost of about $20.50, we see the stock as extremely inexpensive, trading at 9.2X price to earnings ratio and 7.3% free cash flow yield with upside to $30 fair value NAV.

CONCLUSION

As we discussed, we believe our unique, time-tested investment philosophy and our disciplined investment processes are continually able to identify and acquire compelling investments for our Fund. While we remain focused on the continuing and growing neglect that is evident in the small cap universe, as we discuss in the Value Fund Letter this quarter, we also believe our long-term philosophy is very well-tailored to take advantage of turbulence in the markets caused by short-term headlines and unexpected macro events. Our three-to-five-year horizon and our focus on strong balance sheets lets us risk time instead of capital, and allows us to take advantage of security prices that become undervalued due to headlines ranging from Brexit, to the U.S. election and to the next unexpected event, that by definition is not efficiently discounted in the market.

As we look forward to the end of the calendar year and to 2017, we remain enthusiastic on the outlook for our investment philosophy, and the investment opportunities we see for the Small Cap Value Fund. Indeed, we have already purchased a new position which we will discuss with you in January, as we move to synchronize our letters with calendar quarters in 2017.

We wish you a happy and safe holiday season and thank you for your trust and support.

Sincerely,

The Third Avenue Small-Cap Value Team

Chip Rewey
Lead Portfolio Manager

Tim Bui
Portfolio Manager

APPENDIX

October 31, 2016

FUND PERFORMANCE

as of 11/30/16	1 yr	5 yr	10 yr	Since Inception	Inception Date
TASCX (Institutional)	16.06%	12.49%	5.33%	8.89%	4/1/1997
TVSVX (Investor)	15.73%	12.22%	(n/a)	10.43%	12/31/2009

as of 10/31/16	1 yr	5 yr	10 yr	Since Inception	Inception Date
TASCX (Institutional)	6.95%	10.26%	4.60%	8.41%	4/1/1997
TVSVX (Investor)	6.71%	10.02%	(n/a)	9.07%	12/31/2009

as of 9/30/16	1 yr	5 yr	10 yr	Since Inception	Inception Date
TASCX (Institutional)	16.38%	13.31%	5.29%	8.65%	4/1/1997
TVSVX (Investor)	16.14%	13.05%	(n/a)	9.78%	12/31/2009

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 and investor share classes is 1.14% and 1.39%, respectively, as of March 1, 2016. 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.

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.

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Current performance results may be lower or higher than performance numbers quoted in certain letters to shareholders.

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