THIRD AVENUE MANAGEMENT

THIRD AVENUE SMALL-CAP VALUE FUND

INSTITUTIONAL: TASCX | INVESTOR: TVSVX

Portfolio Manager Commentary

December 31, 2016

Chip Rewey, CFA | Lead Portfolio Manager
Tim Bui, CFA | Portfolio Manager

Dear Fellow Shareholders:

When we wrote to you two short months ago, we reiterated some of our commentary from our 2016 Value Equity Conference where we said that the high level of neglect in the Small Cap space offered a consistent flow of potential investment opportunities. Well, clearly we were able to execute on this philosophy in November and December, adding four new securities to the Third Avenue Small-Cap Value Fund (the "Fund"), bringing to five the number of new investments we purchased in the calendar fourth-quarter.

All in all, it was a busier quarter than we would have expected given the strong move up in the small cap indices. In addition to five new investments, we exited three securities, two of which were acquisition targets.

PERFORMANCE

In the quarter, the Fund returned 8.85% vs. 14.07%[1] for the Russell 2000 Value[2]. For 2016, the Fund returned 26.27% vs. 31.74% for the Russell 2000 Value. It is worth noting the strong divergence of growth vs. value in 2016 for the Small Cap indices, as the Russell 2000 Growth index returned 3.57% for the quarter and 11.32% for the year. While we are not happy about the gap to index performance in the quarter, we offer a few words of perspective. Our concentrated investment approach yields a measure of active share of over 95% for the Fund, and in the fourth-quarter approximately 40% of our holdings were not represented in the Russell 2000 Value Index. Thus, by definition, in the short term, the Fund should be expected to track differently than the index, while we still expect it to outperform over time.

Additionally, the strongest performing sectors in the quarter were sectors that are most "balance sheet-challenged" including non-regional bank Financials, Energy and Materials. As we have long discussed, our investment philosophy starts with a strong balance sheet, and thus we were underweight these sectors which led the post-election rally. We believe this rally, as others like it, will normalize over time as investors re-value risk-adjusted returns. Said differently, in an absolute sense, we believe the Fund took much less risk than the benchmark in achieving its returns for 2016.

TOP PERFORMERS

The top contributors to performance were regional banks UMB Financial Corp. and Commerce Bancshares, as well as ICF International, a policy consulting and implementation firm that primarily serves the U.S. Government. The banking positions' performance was driven by the trifecta of better credit quality and loan growth, the expectation of higher interest rates and the expectations of new favorable policies by the Trump administration, which would potentially ease regulations and tax burdens for the sector. Despite the strong moves in all of our regional bank positions this quarter, we still are confident our positions and the sector have good upside due to strong respective internal strategies, as well as a continuation of the positive factors that helped this quarter. ICFI benefitted from strong new business wins, as well as investor perceptions of robust business prospects related to a possible Trump infrastructure spending program.

TOP DETRACTORS

Health Care stocks Allscripts and Brookdale Senior Living sold off with the sector in general on fears of business weakness related to the potential repeal and replacement of the Affordable Care Act (ACA). While we believe changes to this program are likely, we believe there will be continuity of coverage. It is more likely that generic drug pricing and interstate insurer completion are focus areas, and the Fund has little or no exposure to these areas. Moreover, our investment theses on our names across our holdings are solid, as Allscripts continues to win new business and we believe that Brookdale is trading below the value of its Real Estate holdings. Syntel, an offshore processing firm, was another detractor during the quarter. Shares of Syntel sold off, related to investor fears of margin pressures if the company was forced to hire more domestic workers due to new potential regulations of the Trump administration. We believe these fears are overblown and the outlook for Syntel's business of digital migration and transformation of customer work flows remains as strong or stronger than our original investment opinion. We did increase our holdings of both Brookdale and Syntel in the quarter.

NEW POSITIONS

TriNet Group (TNET)

TriNet is a human resources solutions provider for small to midsize businesses under the co-employment model. TriNet has a strong balance sheet and a visible path to compound earnings growth over the next few years as the seemingly ever increasing labor regulations and rising health insurance costs have compelled many small businesses (less than 150 employees) to sign on with

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

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.

Professional Employer Organizations (PEO) to save costs and gain expertise.

TriNet offers outsourced HR administrative functions such as payroll processing, tax administration, employee benefits programs, and employment practices advisory for its corporate clients for a fixed fee per worker. Since insurance is a major expense for companies, TriNet also sells health and workers' compensation insurance. Many small businesses subscribe to this service because they lack the scale to manage all HR activities internally and can benefit from volume purchase of health insurance through TriNet.

TriNet has all of the ingredients to be a multiyear compounder: a large and growing industry due to increasing labor regulation and complexity, a fragmented industry that is primed for more consolidation which brings economies of scale and lowers risks for acquirers, and a strong management team with a proven operational track record. The combination of its strong balance sheet, recurring revenue and high free cash flow also positions TriNet to take advantage of market opportunities for continued bolt-on acquisitions. Based on the fundamentals, we estimate the stock's fair value NAV to be in the range of $33-35 a share, which represents over 30% upside over current trading levels.

BMC Stock Holdings (BMC)

BMC Stock Holdings is one of the largest distributors of building materials in the country and a company that has been on our radar for many years having been a profitable investment for Third Avenue in the past. The company is a fairly recent combination of Building Material Holding Corp. and Stock Building Supply, a transformative merger completed at the end of 2015. During the quarter, a pullback in its stock price in the midst of improving company fundamentals created another opportunity for us to invest.

We believe the combined company is facing increasing prospects for growth with strong leverage to single-family housing starts in the U.S. Housing starts remain well below historical averages despite continued household formation growth, which should support growing demand for BMC's core building products and services over the medium and long term. Moreover, we believe this growth will be increasingly profitable for BMC as the company has been focused on shifting its business toward higher-margin value-added products and services such as millwork and design services. A noteworthy example of this is a product platform BMC created named Ready-Frame. This innovative offering delivers packages of pre-cut materials to building sites based on the exact specifications of blueprints uploaded to BMC's platform by builders, significantly reducing the time, labor, and waste required for construction.

From a financial perspective, the company is well-financed as debt levels have been steadily decreasing as management has dedicated the company's strong cash flow to deleveraging. Having made our investment in the company at an undemanding valuation around 8x EBITDA, we believe earnings and valuation should grow over time as the housing market continues its steady improvement and BMC continues to execute on its internal growth initiatives driving significantly higher margins and cash flow over the coming years.

Quanex Building Products Corp. (NX)

We are enthusiastic about the completion of Quanex's transformation activities to a pure play building supply company, as focusing on a few things and doing them extremely well are the hallmarks of good companies that usually translate to good investment returns. As a background, Quanex was organized in Michigan in 1927 as Michigan Seamless Tube Company. In 1977 it changed its name to Quanex and moved to Houston. Over the years, it diversified into steel and aluminum sheet manufacturing, with a very mixed record. Starting in 2007, the company began a transformation by gradually divesting both the original steel and aluminum businesses and acquiring components companies. Today, the company is a "pure play" on building products and manufacturing parts for the window and door industry. Its main products include extruded aluminum and vinyl window frames, flexible glass spacers for insulated window panes, window and patio door screens, architectural moldings, and window grills.

In November of 2015, through the $246MM acquisition of Woodcraft, Quanex expanded into a related area, manufacturing engineered wood doors and drawer fronts for the kitchen and bath cabinet industry. We are optimistic about Quanex's longer term prospects because of the continued improvement of residential housing construction (as discussed above in our BMC Holdings commentary) and the company's internal efforts to increase margins. Management has done a great job of increasing efficiency, improving EBITDA margins from 4.60% in 2012 to 12% in Fiscal Year 2016 and is targeting 15% in a few years. Management is using Quanex's strong free cash flow to quickly reduce debt. We think the stock has a NAV around $27 per share, representing approximately 30% upside from our purchase price.

Synaptics, Incorporated (SYNA)

Synaptics supplies human interface product solutions, i.e., touch controller, display driver, integrated touch and display, and fingerprint authentication products, which are used in smartphones, tablets, PCs and other electronic devices. The increasing prevalence of electronic devices in our daily lives continues and more and more, devices are geared toward ease of use, including larger displays and being touch enabled. The smartphone in your pocket, the tablet used to read your daily news and perhaps even the PC/laptop your children use for their homework – they are all likely touch-enabled. They may also have fingerprint authentication, perhaps only for device security (i.e., to unlock the device), but increasingly applications such as mobile payments, banking and on-line shopping are expected to move toward fingerprint solutions for enhanced security and convenience. Automotive applications for both touch and fingerprint sensors are also increasing, as evidenced by increasing displays in vehicles' instrument clusters, infotainment, etc.

Demand for consumer devices is cyclical and technological change is rapid. However, we believe Synaptics is well-positioned in its markets. Its net cash balance sheet provides it the wherewithal to continue to invest in R&D and weather cyclicality, and while not integral to our investment thesis, the company could be an attractive takeover candidate for the likes of Samsung or Apple or another smartphone manufacturer, if they wanted to bring the technology in-house or a broader semiconductor chip manufacturer. We were able to acquire shares of Synaptics common stock at an attractive discount to our estimated mid-case NAV on concerns of gross margin pressure as Synaptics experienced a faster-than-expected ramp in its integrated touch and display product to the lower-end phone market. As that product continues to ramp and the company employs cost improvement measures along with increasing volume of higher margin fingerprint solutions, we believe the gross margin pressure should abate.

Korn/Ferry International (KFY)

As we have shifted the time period of our reporting as of this letter, we will republish our thoughts on Korn/Ferry, a position initiated in October.

Many of you may recognize the strong brand name of Korn/Ferry International, 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 an 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. Eleven 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.

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 saw the stock as extremely inexpensive, trading at 9.2X price to earnings ratio and 7.3% free cash flow yield, a strong balance sheet and a highly visible path to compounding earnings and book value growth.

CONCLUSION

We have remarked that the small cap universe offers a perennial universe of investment opportunities and this quarter's diverse list of new positions, from health care to building materials, technology and business services serve to re-emphasize our view. Additionally, our differentiated approach to stock selection is evident in that three of our six new buys are securities of companies that are not represented in our primary index. Post the strong finish to 2016, our work-in-process lists are still full of potential investment ideas and we have the framework and discipline to harvest top performers to fund new buys.

While our philosophy and process have no call on a macro forecast, we are confident the combination of strong balance sheets and book value growth of our portfolio companies can outperform over the long term, independent of the broader market movements.

We thank you for your trust and support and look forward to writing to you in April.

Sincerely,

Third Avenue Small-Cap Value Team

Chip Rewey
Lead Portfolio Manager

Tim Bui
Portfolio Manager

December 31, 2016

FUND PERFORMANCE

as of 12/31/16	1 yr	5 yr	10 yr	Since Inception	Inception Date
TASCX (Institutional)	26.27%	13.42%	5.60%	9.00%	4/1/1997
TVSVX (Investor)	25.93%	13.15%	(n/a)	10.73%	12/31/2009

TOP TEN HOLDINGS

	% of Portfolio
Commerce Bancshares, Inc.	3.4%
UMB Financial Corp.	3.1%
WCI Communities, Inc.	3.0%
Insight Enterprises, Inc.	2.7%
Southside Bancshares, Inc.	2.6%
Cubic Corp.	2.6%
Multi-Color Corp.	2.5%
ICF International, Inc.	2.4%
Prosperity Bancshares, Inc.	2.3%
Cullen/Frost Bankers, Inc.	2.3%

Allocations subject to change

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.

Date of first use of portfolio manager commentary: January 19, 2017

THIRD AVENUE MANAGEMENT

Third Avenue offers multiple investment solutions with unique exposures and return profiles. Our core strategies are currently available through '40Act mutual funds, customized accounts, and UCITS funds. If you would like further information, please contact a Relationship Manager at:

www.thirdave.com

/third-ave-management

622 Third Avenue
New York, NY 10017

212.906.1160

clientservice@thirdave.com