

June 30, 2017

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Dear Fellow Shareholders:

FINDING PLENTY TO DO

In the second quarter, the broader market indices of the Russell 2000 Value, the S&P 500, the Nasdaq composite, etc., all continued to trade at or near all-time highs. While clearly we agree that there are pockets of high expectations in the broader market, The Third Avenue Small Cap Value Fund had an active quarter in new purchases, as our robust, repeatable and definable philosophy and idea origination processes led us to uncover and execute new positions. Given this seeming contradiction of a market reaching new highs and our enthusiasm for several new positions, we thought it would be timely to review our stock idea origination philosophy and process.

Every Third Avenue idea comes from following our core philosophy as originally articulated by Martin Whitman, that is the three pillars of: i) Creditworthiness, as defined by a strong balance sheet, ii) the ability to compound book value growth and iii) purchasing at a significant discount to our estimated Net Asset Value.

Following the Dots to 6 New Investments: PDC Energy, Haynes International, Finisar Corp, Horizon Global, AMN Healthcare, and WesBanco Bank

To implement this philosophy in idea generation, we follow both qualitative and quantitative paths. Most of our ideas originate from our fundamental research on existing or current work-in-progress ideas, where we 'follow the dots' of relevant information. Our new position in PDC Energy (PDCE) this quarter is a classic example. As we were continuing to research our current holding Carrizo Oil and Gas (CRZO), and indeed EOG Resources (EOG) in the Third Avenue Value Fund, we continued to become more intrigued and enthusiastic about the tremendous oil resource in a field called the Delaware Permian Basin, and more specifically with acreage located in Reeves County, Texas. As we analyzed production results and finding cost economics for Carrizo and EOG Resources, we followed the dots and analyzed all companies that had core acreage holdings in Reeves County, and this was the starting point for our due diligence on PDC Energy.

Another example was following the dots on our aerospace holding Barnes Group (B), as we analyzed the strength of the Boeing and Airbus narrow body airframe refresh cycle now ramping up, specific to engine components. This led us to take a new look at Haynes International (HAYN), a small

cap company with a large market position in aerospace engine alloys.

Finisar Corporation (FNSR) makes optical components and is related to the same food chain as NetScout (NTCT), another holding in the Fund, which provides network service assurance and security. Finisar's stock price declined due to what we perceived as a more near-term issue. We were intrigued, given its cash-rich balance sheet and leading market position and decided to do further due diligence.

Our other three purchase ideas originated with our robust screening function. Since we search for smaller companies off the beaten paths, many of whom are not often reported in the financial press, quantitative tools allow us to identify these potentially overlooked names. It is important to understand that our screening process is not just a starting point for our fundamental research process, but it is also specifically tailored to our investment philosophy. Put simply, the ability to rapidly access large amounts of both financial and qualitative data in a tailored fashion has allowed us to push forward our idea generation tool kit. In the same way that the cars we drive today are much more advanced than those we drove at Third Avenue's founding in 1986, our front end processes continually push the envelope for broader vision, efficiency and speed of process, but all within the parameters of our philosophy.

The initial look at Horizon Global (HZN) and AMN Healthcare (AMN) came from a screen that integrates the multiple factors of: strong cash flow, healthy balance sheet, improving business trends, and compelling valuation levels. Lastly, our initial spark to work on WesBanco Bank (WSBC) came from studying a screen of smaller cap bank stocks with healthy Net Interest Margins, strong deposit led funding and controlled charge offs. All six new purchases are described in greater detail later in this letter.

In our opinion, a robust and repeatable front end is a critical factor for success for two reasons. First, as we have discussed, it is essential to identify new ideas regardless of broader market levels. Secondly, the ability to consistently find and execute on new ideas allows for the timely sale of existing portfolio names that have achieved and even surpassed our NAV-driven price targets. Finding compelling new ideas lets us efficiently recycle our capital, and not have cash accumulate beyond desired levels through a lazy belief that there are no compelling ideas on which to work. At quarter end, the Fund's cash level was approximately 3%.

PERFORMANCE

For the quarter ended June 30, 2017, the Third Avenue Small Cap Value Fund returned 1.74% vs. a 0.55% return of the Russell 2000 Value Index¹. Year to date June 30, 2017, the Fund returned 2.49% vs. 0.54% for the Russell 2000 Value Index.

The top three contributors for the quarter were Multi-Color Corporation (LABL), Alamo Group (ALG) and ICF International (ICFI). Multi-Color, a consumer product label manufacturer, reported good quarterly results with strong organic volume growth. ICF, a global government consultant in technology, policy and spending, and a detractor for the Fund noted last quarter, rebounded after reporting a better-than-expected quarter demonstrating healthy growth and the ongoing critical nature of its services. Alamo, a manufacturer of municipal and agricultural maintenance equipment, also reported a good quarter with record margins on the back of continued operational improvement initiatives.

The top three detractors for the quarter were Carrizo Oil & Gas (CRZO), FTI Consulting (FCN) and Cubic Corporation (CUB). Carrizo, a Texas oil and gas exploration and production company, declined with the pullback in oil prices during the quarter. Notably, at the end of the quarter, Carrizo announced an attractive acquisition of Delaware Basin properties from ExL Petroleum with good production and valuable synergies with Carrizo's strong existing Delaware acreage. FTI, a business advisory consultant, pulled back as its first quarter results showed demand for its restructuring advisory temporarily ebbing in some industry verticals. Quarterly fluctuations in FTI's business lines are notably bumpy in the short term and we continue to like the longer term market position and shorter term internal restructuring initiatives in process at the company. Cubic, a provider of public transportation systems and defense training, disappointed the market with its quarterly results in part due to contract award timing but we believe the company is exceptionally well-positioned as a market leader and that its outlook remains strong.

NEW POSITIONS

AMN Healthcare Services (AMN)

Founded in 1985 as a travel nursing company, AMN has become a leading healthcare staffing company that offers temporary placement of healthcare professionals for hospitals to fulfill various durations ranging from one day to 2 years. Since 2013, the company spent a total of \$360MM on several acquisitions to enter the "solutions" business (outsourced recruiting, permanent staffing, managing personnel, and software scheduling for hospitals) to extend its portfolio. In terms of profit drivers, travelling nurses and allied healthcare workers contribute about 55% of pre-overhead EBITDA, while temporary physicians and the new Solutions segments contribute approximately 20% and 26%, respectively.

In its core business, which is filling staff shortages, AMN provides the crucial exchange between demand and supply. Hospitals need an intermediary such as AMN to find healthcare workers, vet their credentials, handle all administrative tasks, make payments, and provide workers' comp and medical malpractice insurance. Healthcare professionals need a source to find work, arrange travelling, and receive weekly or biweekly paychecks. While it does not command the same level of operational leverage as international networks such as eBay, Facebook, or Uber, AMN's economics do significantly improve as it becomes larger. As AMN further expands into Solutions and integrates itself into hospitals' staffing functions (MSP or Managed Service Provider), it further enhances its market position and cements its relationship with its clients.

We think AMN is benefiting both from positive demographic trends, which provide good growth, and margin expansion. Beyond the Affordable Healthcare Act that increased the insured population by about 20 million people, the aging population and the shortage of healthcare professionals will create strong demand for temporary staffing services. Benefiting from operational leverage, management expects operating margins will continue to expand. With the high level and growing free cash flow, we think AMN common shares have 30% potential upside to our NAV target.

Finisar Corporation (FNSR)

Finisar is a well-financed provider of optical subsystems and components, which are used in data communications and telecommunications. It was the market share leader in 2016, according to Ovum (market-leading research and consulting firm focused on digital service providers), and has held that honor since 2008. Demand for optical is being driven by additional network bandwidth needs due to increasing data and video traffic. Video downloads and streaming, social networking, on-line gaming, enterprise IP/Internet traffic, cloud computing, and data center virtualization – these are all putting additional demands on the network for increased bandwidth. In response, the telecom industry is ramping up metro (city-level) deployments in North America and Europe; China is increasing its buildouts supported by government initiatives to complete broadband coverage in rural and urban areas. On the data communications side, there is an increase in hyperscale data centers (think Amazon Web Services, Microsoft's Azure, Google and the like) and deployments of technology to upgrade existing connections to increase speed and efficiency in the networks.

Finisar also provides potential exposure to the growing 3D sensing industry. 3D sensing allows for augmented camera capabilities which enable object recognition, depth data, greater precision and object placement that can be used for virtual and augmented reality. Finisar provides VCSELs (vertical-cavity surface emitting laser) which can be used as

¹ The Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. Please see Appendix for performance table and information

part of the 3D sensors. VCSELs have advantages of optical efficiency, low cost and small size. Finisar is expanding its manufacturing capacity of VCSELs at its Allen, Texas facility, which management believes will then allow it to pursue new 3D sensing opportunities in consumer applications.

Finisar common stock declined recently due to near term concerns over slowing demand from China and from a product specific issue, which appears now to be resolved. This provided the Fund an opportunity to acquire shares in this well-financed company at a discount of around 25% to our estimated mid-case NAV, for which we attribute no value to the potential opportunity in 3D sensing.

Haynes International (HAYN)

Haynes International Inc. is a \$450 million equity market cap manufacturer of nickel and cobalt high temperature (HTA) and corrosion resistant (CRA) alloys. While we have known Haynes from a research perspective for over a decade, we finally got the opportunity to purchase a position in the company in the second quarter, as its shares sold off from over \$45 per share in January to our entry point of roughly \$35. While the stock price decline provided us an opportunity in line with our patient buying approach, we also feel the investment is quite timely given the expected acceleration of the company's aerospace related sales and a likely strong improvement in free cash flow, as it wraps up a major capital expenditure program to increase production levels nearly 50% at its core Kokomo Indiana mill.

Haynes meets all the tenants of our Third Avenue investment philosophy. Haynes has a rock-solid balance sheet with no debt and over \$5 per share in net cash. Indeed, we foresee the balance sheet continuing to strengthen as capital expenditures fall from \$22 million in 2017 down closer to maintenance levels of roughly \$5 million, and free cash flow conversion should re-approach 100% of net income.

Haynes also provides near and long term visibility to grow revenues and earnings. Haynes' alloys are in high demand across the economy from healthcare to industrial uses. Growth in shipments to narrow-body airframe engine platforms for both Boeing and Airbus look particularly compelling due to both the long term backlog of units to build and from the significant amount of new dollar content Haynes has on these engines.

At our purchase cost of roughly \$35 per share, we see compelling upside of over 35% to our NAV--a nice potential return given the downside protections provided by its cash flow and balance sheet position, as well as from a potential resource conversion event due to the likely interest in the company from larger strategic peers.

Horizon Global (HZN)

Horizon Global designs and manufactures towing, trailering and cargo products for both commercial and

recreational uses. It is the only public company in this niche market and looks to have the largest market share. All of Horizon's competitors are private companies and they only target segments of the business. The company was a public spin-off of TriMas Corporation's Cequent business and renamed Horizon Global Corporation in June 30, 2015.

Through acquisitions, Horizon has evolved from an aftermarket hitch manufacturer to a company with a diverse portfolio of products across different brands that serves the DIY market (through e-commerce on Amazon.com and etrailer.com, which account for about 30% of sales), aftermarket and private labels through resellers (U-haul, LKQ, Autozone, Walmart, Home Depot, which account for about 40% of sales), and now Original Equipment Manufacturers/OEM (Ford, Toyota, GM, which account for about 30% of sales). About half of Horizon products are used in commercial applications such as construction, marine, military, mining, and municipalities. The rest are for recreational uses including boat towing, power sports, horse/livestock, RVs, and truck accessories.

We like Horizon's market position. It operates in a niche market and has a unique product portfolio that discourages new entrants but at the same time allows it to capitalize on its brands to gain share. Towing equipment is custom-engineered for each vehicle model and for each specific application. While the DIY and aftermarket are more price sensitive, OEM products have to blend in with the vehicle esthetic and mechanical designs. To succeed, the company has to have design skills, a product safety record, efficient skills in short run production, and a strong balance sheet to handle large but slow moving inventory. While this is a slow growth business, management has been taking steps to consolidate plants and improve productivity. EBITDA margins have already expanded from 4.5% in 2013 to 8.5% in 2016. The company's goal is to continue to improve it to 12-13%. We feel that these goals are achievable due to their self-help nature. It is not difficult for us to see the stock reaching \$18-20 a share from \$14 currently.

PDC Energy (PDCE)

As touched on earlier in the letter, PDCE is a \$2.7 billion independent Exploration and Production company. PDCE has core acreage positions in the Delaware Basin, specifically in Reeves County, Texas and in the Wattenberg Field (Niobrara Shale), in Colorado. Both acreage positions contain prolific high-quality oil and gas rich deposits that have allowed PDCE to grow production levels rapidly (44% growth in 2016) at high return levels. As PDCE ramps up its drilling activities in the Permian Basin, PDCE should be able to continue this growth trajectory, targeting a 25%-40% range over the next several years.

As we have come to understand, with Energy E&P companies: i) you get the quality you pay for and ii) big fields get bigger. Both are proving true in PDCE's early drilling results from the Delaware basin. Three recent wells targeting the Wolfcamp interval are producing at a

25% higher rate than their acquisition economics of a year ago. With more productivity initiatives of downspacing well placement intervals, longer lateral drilling of wells and the continued progression of technology and science, we think PDCE's economics will continue to surprise to the upside.

Despite having made recent acquisitions, notably the \$1.6 billion acquisition of 57,000 acres in Reeves County in 2016, PDCE maintains a strong balance sheet, with Debt-to-EBITDA of 2.0x, and targeted to fall to 1.7x by year end. If PDCE is successful at selling its non-core Utica shale assets which are currently being marketed, this leverage ratio would improve further. More importantly, PDCE's revolving credit agreement was just increased to \$750 million and remains undrawn, and when combined with over \$250 million of cash on the balance sheet, leaves PDCE with almost a \$1 billion of liquidity. This liquidity is more than enough to cover the capital expenditure outspend of about \$175 million in 2017, with PDCE targeting cash flow neutrality in 2018, or 2019 in an adverse oil price scenario. With its revolver being the first maturity from its credit stack in the year 2020, PDCE has plenty of breathing room.

As PDCE sold off late in the quarter, with the swoon of the broader oil group, we were able to initiate our position close to multi-year low price levels, and with a conservative upside of more than 30% to our estimated NAV. Lastly, PDCE could present conversion potential to a larger E&P looking to expand into these prolific regions, a factor that should offer some downside protection and provide upside optionality not in our valuation calculations.

WesBanco Bank (WSBC)

WesBanco is a mid-sized, community bank with just under \$10 billion in assets headquartered in Wheeling, West Virginia. Over the last twenty years, the company made some 25 acquisitions to enter the neighboring states of Ohio and western Pennsylvania. Starting in 2014, the bank hired CEO Todd Clossin, who was the CEO of Midwest and Florida regions for Fifth Third Bank, to accelerate the growth. Within a year on board, Clossin made the two largest acquisitions in the company history: ESB Financial in Pittsburgh in February 2014 (a thrift with \$1.9 billion in assets; paid \$324MM in cash and stock) and Your Community Bankshares (YCB) in southern Indiana and Kentucky in September 2016 (\$1.5 billion in assets; paid \$221 MM in cash and stock). These two additions effectively lifted WSBC's asset base by 60%, from \$6.0 billion to \$9.5 billion today.

WSBC meets the credit culture requirement that we look for in banks. The company is a very conservative lender with strong underwriting standards and a diversified book of business. As of 1Q2017, non-performance assets account for only 0.56% of total assets and net charge-off was only 0.15% of average loans. Since its operations are in rural or small cities where there is little industrial activity, WSBC lends mostly for commercial real estate (45.8% of

loans) and residential real estate mortgage (30.2% of loans). Even having large exposures to real estate lending, the average loan is small, with low loan-to-value ratios, and most are owner-occupied. Furthermore, the loans are placed in several states and in several industries.

We see several positive trends developing at WSBC. The integration of the ESB and YCB acquisitions are complete, and the benefits from cross-selling and cost savings should begin to show up in 2017 and 2018, and WesBanco is positioned to benefit from Federal Reserve rate hikes.

Further, the company made several hires to push growth in the Consumer and Industrial loan (C&I) space over the last few quarters, which should bring a more diversified loan mix versus its Real Estate lending base. These new loan officers have been a drag on expenses but should begin to contribute this year. C&I loans currently are about 17.5% of total loans, but grew 11% in 1Q2017. We think that because of the large real estate portfolio, investors could be evaluating WSBC as a thrift rather than a commercial bank, giving it a valuation discount. Higher C&I exposure would likely help diversify the portfolio and might change investors' perception of the company. At our initial purchase cost of under \$40 per share, we see over 25% upside to our estimate of NAV.

CONCLUSION

As we enter into the third quarter, our work-in-process lists remain active. We recently added two new names to our Bull Pen list of attractive and fully processed investment ideas, but we are patiently waiting for an appropriate discount to our NAV estimates to allow for a disciplined purchase.

As always, we thank you for your trust and support and we look forward to writing to you after the third quarter.

Sincerely,

The Third Avenue Small-Cap Value Team

Chip Rewey, Lead Portfolio Manager

Tim Bui, Portfolio Manager



Chip Rewey
Lead Portfolio Manager



Tim Bui
Portfolio Manager

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Date of first use of portfolio manager commentary: July 17, 2017

THIRD AVENUE SMALL-CAP VALUE FUND

APPENDIX

INSTITUTIONAL: TASCX | INVESTOR: TVSVX

June 30, 2017

FUND PERFORMANCE

as of 6/30/17	1 yr	3 yr	5 yr	10 yr	Since Inception	Inception Date
TASCX (Institutional)	20.60%	6.17%	12.71%	4.99%	8.90%	4/1/1997
TVSVX (Investor)	20.32%	5.91%	12.43%	(n/a)	10.33%	12/31/2009

TOP TEN HOLDINGS

	% of Portfolio
Commerce Bancshares, Inc.	2.6%
Southside Bancshares, Inc.	2.4%
ICF International, Inc.	2.3%
Syntel, Inc.	2.3%
Multi-Color Corp.	2.2%
NetScout Systems, Inc.	2.2%
World Fuel Services Corp.	2.1%
BMC Stock Holdings, Inc.	2.1%
Kaiser Aluminum Corp.	2.0%
Cubic Corp.	2.0%

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 1.21% and 1.45%, respectively, as of March 1, 2017. 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.

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 web site at www.thirdave.com. Distributor of Third Avenue Funds: Foreside Fund Services, LLC.

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

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THIRD AVENUE
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