THIRD AVENUE MANAGEMENT

Portfolio Manager Commentary

THIRD AVENUE SMALL-CAP VALUE FUND

INSTITUTIONAL: TASCX | INVESTOR: TVSVX | Z: TASZX

March 31, 2019

Victor Cunningham, CFA | Portfolio Manager

Dear Fellow Shareholders,

For the first quarter ending March 31, 2019, the Third Avenue Small-Cap Value Fund (the "Fund") rose 11.13%, while the Russell 2000 Value Index increased 11.93% percent.[1]

Despite lagging its benchmark, the Fund achieved its highest quarterly performance in six years. A vast majority of the Fund holdings snapped back from the fourth-quarter swoon. Investments in housing (TRI Pointe and Interfor), energy (Tidewater and SEACOR Marine) and auto (Visteon), which held the portfolio hostage in the fourth quarter, rebounded as recession fears faded quickly.

All of the underperformance was caused by top-five holding, ATN International (ATNI). ATNI is an international holding company with investments spanning telecommunications and renewable energy. In previous letters, we suggested ATNI was the quintessential Third Avenue investment. We still believe that. The company maintains a net-cash balance sheet and is run by skilled owner-operators. After a strong performance in 2018, ATNI's stock price declined over 20% in the first quarter following a soft fourth-quarter earnings report in its US telecom business. While investment spending weighed on recent results, we believe cash flows are poised to increase now, as management executes on its strategy to pare back spending and harvest returns. We took advantage of the sagging stock price by adding to the position. Despite a rocky start to 2019, it's been a successful investment for the Fund and remains a top position.

The aggregate portfolio discount to our mid-case, conservative, net asset value (NAV) was approximately 16% at quarter-end as the Fund rebounded, but remains attractive. Fund Management demands a 20% NAV discount on all new investments, so the aggregate portfolio discount currently approximates that hurdle rate.

Activity

In contrast to fourth quarter 2018, activity was muted in the first quarter. It was time to reap the gains from the dramatic portfolio shifts made late last year. Two positions were eliminated (Tetra Tech and Standard Motor Products). Both positions were successful, long-time, compounding investments for the Fund. The positions were eliminated as the NAV discounts shrank and the risk/return trade-offs were no longer favorable. Tetra Tech was also dealing with legal struggles which increased the risks connected to the investment. One investment was added to the portfolio in the first quarter: Argan.

Argan is a company Fund Management has followed and has been in dialogue with for years. Although it's not very well-known, Argan has become an international holding company with operations spanning the US, Ireland and the UK. The company's largest asset and driver of value is an engineering and construction firm named Gemma Power Systems, which specializes in constructing power plants, in particular, large natural gas plants and renewable plants. Argan came back on Fund Management's radar when the company's share price came under pressure following a decline in revenues and earnings, as the company's current set of projects neared completion. The timing piqued our interest given that the company's backlog of upcoming projects has simultaneously begun to grow quite large again, just as it did when we first analyzed the company in 2015. In 2015, a primary concern was whether Gemma could successfully execute on its historically-large backlog – hindsight has shown that the company was able to do so. Fortunately, the market presented a new opportunity to invest at a discount to NAV during the first quarter.

Today, the company's enterprise value relative to the size of its backlog has once again fallen to levels well-below its historical long-term averages. Moreover, the success Gemma and Argan have achieved over the years has led to Argan carrying no debt and very large unencumbered cash balances, which now represent around forty percent of the company's market capitalization. This dynamic further heightened Fund Management's interest, given our attraction to very strong balance sheets, combined with our conviction that these cash assets will be stewarded in a prudent fashion. A close review of its track record shows that Argan's management, led by longtime CEO Rainer Bosselmann, has generated tremendous book value growth over the years through opportunistic resource conversion and conservative financing. Furthermore, as was witnessed over the last few years, Argan and Gemma have proven to be very adept operators, generating industry-leading margins and developing a prominent reputation within the space, all while maintaining a balance sheet stronger than peers. At the same time, the company's growth prospects remain attractive given expectations that coal-fired power plants will continue to be replaced by natural gas and renewable plants over the long term for environmental considerations. Given all of this, Fund Management would not be surprised if at some point in the future the company became an acquisition target itself.

Positioning

There were 32 positions in the Fund at quarter-end. That is down from 33 at year-end and in the range of the number of positions Fund Management plans to hold going forward. Cash stands at 2%, which, in our view, is fully invested.

The Fund's holdings are categorized as either long-term compounders or time-arbitrage positions. Compounders represent approximately 67% of the portfolio while time-arbitrage/special-situation positions are 31%. That's consistent with year-end, after the allocation to time-arbitrage/special situations was boosted during the volatile fourth quarter.

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.

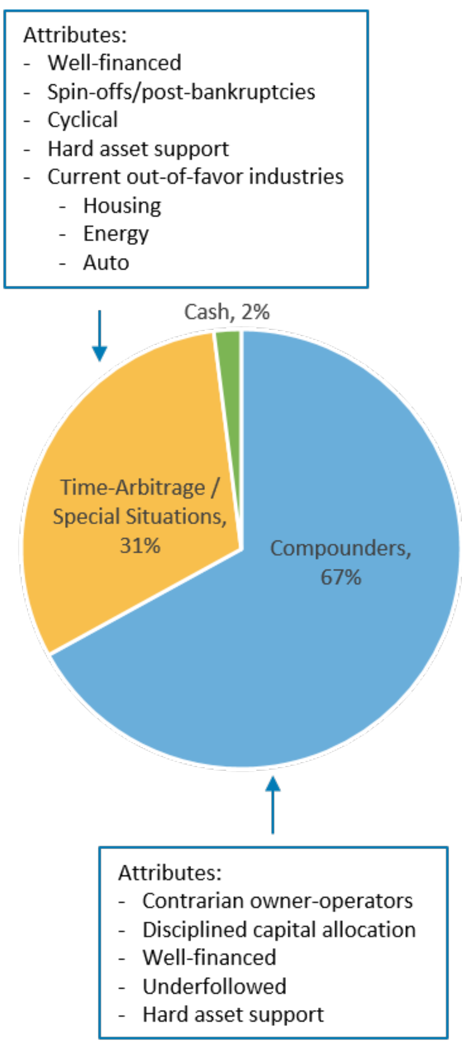
Please see Appendix for performance table and information

Included among the Fund's compounder bucket are Seaboard (conglomerate), MYR Group (engineering and construction firm) and ATN International (infrastructure holding company), where balance sheet strength and prudent capital allocation should allow these companies to compound for many years to come. Financial services companies make up one third of the compounder category.

The time-arbitrage/special-situations bucket is predominantly comprised of energy services companies such as Tidewater and SEACOR Marine, real estate-related holdings such as Interfor and TRI Pointe, and other out-of-favor, misunderstood companies such as Sanderson Farms (poultry producer), AdvanSix (chemical producer), and Visteon (auto supplier). All these companies are cyclical and out of favor right now, but given their strong financial positions, Fund Management believes they have the luxury of time and capital to invest and grow until the clouds dissipate.

Following is a visual breakdown of how Fund Management views the portfolio:

Asset Allocation as of 3/31/19



Fund Commentary

In February, Berkshire Hathaway released its 2018 Annual Report. Similar to many like-minded value investors, reading the report is the equivalent of opening presents on Christmas Day. One of the more notable topics discussed was Warren Buffett's decision to abandon using book value for measuring the intrinsic value of Berkshire Hathaway. Berkshire Hathaway's holdings and capital-allocation policies have changed over time so it makes sense that book value is a less relevant metric for intrinsic value than it was in the past. Given that primacy of the balance sheet is one of Fund Management's cornerstone priorities and net asset value is our core valuation metric, Buffett's decision was of great interest to us. After the letter was published, the media seized upon Buffett's comments highlighting the limitations of book value, the balance sheet and value investing, to a lesser extent. One reputable financial newspaper claimed that Buffett "puts the final nail in the coffin of book value."

Given the publicity Buffett's decision generated, Fund Management thought it would be an ideal time to describe how we use book value and the balance sheet when analyzing securities and why it remains a critical component of our process.

1) The balance sheet is the starting point for all analysis

All equity securities considered for investment must be eminently creditworthy. Fund Management has limited tolerance for financial risk. Well-financed companies will carry more equity, as assets will far exceed liabilities. As mentioned last quarter, the low-interest rate environment has masked leverage for many small-cap companies. An approach that solely focuses on the income statement or earnings can easily overlook credit risks lurking on the balance sheet. At some point, there will be a price to pay and we want to be ready. Investing in well-financed companies is a prudent place to be. In addition, Fund Management is vigilant about avoiding companies shifting equity on the balance sheet into debt which compromises creditworthiness. When portfolio companies do it, it is an obvious sell signal.

2) Third Avenue invests with management teams that are not only operators, but also financiers and investors

This priority sets us apart from peers who solely focus on earnings. Our focus is wealth creation. The income statement does an adequate job measuring management's ability to operate the business. The balance sheet and book value, in particular, are much better measuring sticks for management's ability to finance and invest. Fund Management takes a balanced approach which not only values cash flows, but also how those cash flows are being deployed to create wealth over time. Companies that are growing book value at double-digit rates tend to be careful about the prices paid for acquisitions and only selectively repurchase shares, for example. When we meet with management teams, our questions focus on capital-allocation policies rather than income statement changes. Poor capital-allocation policies tend to result in serial charge-offs, which hinders book value growth. Book value could understate the underlying value of assets on the balance sheet, but it is indisputable that charge-offs are the result of poor capital-allocation decisions. Fund Management includes a ten-year lookback of book value per share in every quarterly earnings write-up. It is an instructive tool to grade historical capital-allocation prowess.

3) Limitations of Balance Sheet and Book Value

Book value at its core is what is left after all liabilities are subtracted from assets. Book value serves as a starting point for our analysis, but it is not an end point. We acknowledge that US GAAP has its shortcomings. For example, it does a poor job reflecting fair value of Real Estate assets and off-balance sheet liabilities. What's critical is the quality and quantity of those assets and whether they far exceed the true value of the liabilities. To compensate for shortcomings, each asset and liability on and off the balance sheet is assessed and conservatively adjusted to economic reality to compute net asset value. It is worth pointing out that not all assets are income-producing. Income statement-focused investors will not properly value non-income producing assets. Our balanced approach incorporates non-income producing assets into net asset value estimates as they represent future sources of wealth creation.

4) Advantages of Balance Sheet and Book Value

Given Fund Management's aversion to acquisitive companies, book value tends to stay in a much tighter range versus earnings. Being a stable benchmark, historical book value-based valuation measures are more reliable than earnings-based metrics in our view. Book value can also be used as a benchmark to forecast future cash flows. Book value is predominantly composed of retained earnings for most companies. Most companies generate returns on equity within a range over time. As a result, the growth of shareholder equity should approximate cash flow growth over time.

One of Warren Buffett's most notable articles was the "Super Investors of Graham and Doddsville." Buffett highlighted nine different investors who generated outstanding returns despite wide disparities in their approach. The only thing they had in common was focusing on value. Third Avenue's balanced approach is unlike many peers. The high active share[1] (Small-Cap Value Fund: 97.9%) across our product platform is a byproduct of an unconventional approach. We are attracted to well-capitalized companies with identifiable assets. Although some have dismissed book value as no longer valid and instead focus to earnings-based valuation measures, it remains a critical aspect of our approach.

The importance of balance sheet strength has diminished in a low-interest rate environment and tangible assets have lost their luster in investors' eyes. Balance sheet scrutiny and strong asset support will come back into vogue at some point. As our founder, Marty Whitman, wrote in the past, "book value tends to be very important as the starting point for most analyses. It is rarely the finishing point." We agree.

We look forward to reporting back to you next quarter. Thank you for your investment in the Small-Cap Value Fund.

Sincerely,

Vic Cunningham , CFA

1. Active Share is the percentage of a fund's portfolio that differs from the benchmark index.

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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Date of first use of portfolio manager commentary: April 17, 2019

FUND PERFORMANCE

as of 3/31/19	1 yr	3 yr	5 yr	10 yr	Since Inception	Inception Date
TASCX (Institutional)	-4.77%	9.04%	5.11%	12.78%	8.33%	4/1/1997
TVSVX (Investor)	-5.04%	8.76%	4.84%	(n/a)	8.64%	12/31/2009

TOP TEN HOLDINGS

	% of Portfolio
MYR Group, Inc.	5.3%
FTI Consulting, Inc.	4.9%
UMB Financial Corp.	4.6%
Customers Bancorp, Inc.	4.5%
Tidewater, Inc.	4.3%
ICF International, Inc.	4.0%
Sanderson Farms, Inc.	3.8%
ATN International, Inc.	3.6%
TRI Pointe Group, Inc.	3.6%
Prosperity Bancshares, Inc.	3.6%

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, investor and z share classes is 1.25%, 1.53% and 1.20%, respectively, as of March 1, 2019. 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.

THIRD AVENUE MANAGEMENT

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

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