SMALL-CAP VALUE FUND

AS OF DECEMBER 31, 2022

INSTITUTIONAL: TASCX | INVESTOR: TVSVX | Z: TASZX

THIRD AVENUE MANAGEMENT

PORTFOLIO MANAGER COMMENTARY

VICTOR CUNNINGHAM, CFA

Dear Fellow Shareholders,

The Third Avenue Small-Cap Value Fund (the "Fund") returned 10.85% during the fourth quarter of 2022 versus a rise of 8.42% for the Fund's most relevant benchmark, the Russell 2000 Value Index (the "Index").[1] During 2022, the Fund returned -1.82% versus a decline of 14.48% for the Index. It was a gratifying quarter as the Fund delivered robust absolute returns while also protecting capital in 2022, which was a challenging year for most asset classes globally. In a year in which the return of capital[2] was more important than the return on capital, the Fund's 2022 performance was ranked in the top 8% among 481 funds based on total returns in the Morningstar Small Cap Value category.[3]

It was another volatile quarter as equity prices rose rapidly in October and November, yet limped into the end of the year as 2023 recession fears grew. The gyrations did not occupy our attention. Instead, we stayed true to our bottom-up process and recycled capital into investments that we believe have the more attractive risk/return characteristics.

Fourth quarter absolute performance was driven by strong returns from Tidewater Inc., EMCOR Group, Tri Pointe Homes and Kaiser Aluminum. In our previous letter, homebuilder Tri Pointe Homes was highlighted as a company under extreme pressure given the sour outlook for housing. Additional capital was invested in Tri Pointe during the fourth quarter at attractive prices. Fund shareholders received immediate gratification after Tri Pointe Homes reported satisfactory third quarter results and benefitted from expectations that interest rate increases might be nearing a peak. EMCOR, Tidewater and Kaiser all appreciated after reporting better than expected earnings reports. Tidewater was the biggest contributor to 2022 performance in response to improving operations and a growing realization that fossil fuels will likely need to be part of the energy equation for longer than many people expected a year ago. As a result, industry spending will likely need to increase in order for supply to keep pace with demand.

Small-cap active managers had a stellar year with 87% of managers benchmarked against the Russell 2000 outperforming. In our September 2022 Whitepaper, we warned about the deterioration in quality of Small Cap indices. One of the reasons active managers did so well was that non-earners in the Russell 2000 were down -35% in 2022. Former beneficiaries of low interest rates and easy money struggled in 2022. As we continue down the path of higher interest rates and improved fiscal responsibility, knowing what you own, focusing on margin of safety[4] and careful security selection should continue to be critical components of successful investment strategies.

ACTIVITY

There were no new positions added to the Fund during the quarter. BrightSphere Investment Group, and Cal Maine Foods were eliminated. BrightSphere and Cal Maine were both prototypical time-arbitrage/special situation investments. At the time of original purchase, asset manager, BrightSphere was undergoing a transformation leading to a series of asset sales in 2021. A large portion of the proceeds were returned via a tender offer in December 2021. After shares rose roughly 25% in the fourth quarter, the remaining position was monetized to redeploy into other more attractive securities. Egg producer, Cal Maine, was purchased during the depths of Covid at a deeply discounted valuation. As inflation grips the economy, Cal Maine has benefitted from consumers flocking to cheap sources of protein. In addition, an outbreak of bird flu in the US has disrupted supply. Fortunately, Cal Maine's flock was spared from bird flu and the company was able to benefit from higher prices without experiencing supply disruptions. Cal Maine's share price rose 70% in 2022 reaching a valuation meaningfully above our estimate of net asset value. Like BrightSphere, the position was eliminated to raise capital for better opportunities. Selling is not a decision Fund Management takes lightly. The time-arbitrage/special situation bucket is comprised of companies where the thesis is dependent on an event or change in cycle dynamics. In both cases, the thesis played out as expected and given the valuation improvement, the securities were no longer a good fit for the portfolio.

PORTFOLIO UPDATE

There were 26 positions in the Fund at quarter-end, down from 28 at September 30, 2022. Cash at quarter-end stood at approximately 6%, up from 5% at September 30, 2022.

In our approach to portfolio construction, Fund Management categorizes holdings as either long-term compounders or time-arbitrage/special-situation positions based on the companies' characteristics. At the end of the fourth quarter, long-term compounders represented approximately 62% of the portfolio, and time-arbitrage/special-situation positions represented approximately 32%.

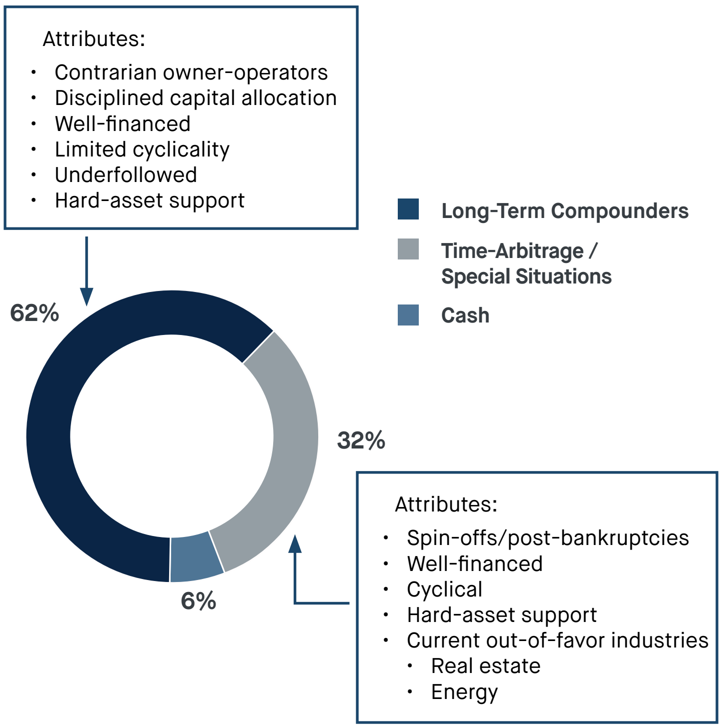
The Fund's compounder category (or "bucket") includes companies such as Seaboard (conglomerate), MYR Group (engineering and construction), and Westaim (financial services holding company). We believe balance sheet strength and prudent capital allocation should allow these companies to compound NAV for many years to come. Financial services companies are roughly half of the compounder category, and well-capitalized regional banks make up 21% of the total portfolio.

The time-arbitrage/special-situations bucket is predominantly comprised of energy services company Tidewater, real estate-related holdings such as InvenTrust Properties Corp., and other out of favor, misunderstood companies such as Madison Square Garden Entertainment. All of these companies are cyclical and misunderstood, 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.

The Fund's weighted-average discount to our mid-case, conservative NAV estimates declined to 9% in the fourth quarter.

Following is a visual overview of the portfolio:

ASSET ALLOCATION AS OF DECEMBER 31, 2022



FUND POSITIONING

Investing in well-capitalized, credit-conscious, book-value[5] compounding regional banks continued to be a critical component of Fund Management's investment strategy. Over the past year, and in the fourth quarter in particular, the Fund's regional bank holdings diluted performance. When reflecting on investor attitudes towards banks in 2022, we are reminded of the Samuel Clemens quote, "I have had a lot of worries in my life, most of which never happened".

We believe bank stock price performance has been beholden to macro trends such as interest rate movements and economic growth projections without enough regard for company specific operations. Leading up to 2022, the narrative against banks was that net interest margins would be compressed by historically low interest rates. As rates rose in 2022, the narrative shifted to concerns about recession, loan losses as well as deposit costs and earning asset growth. Fund Management firmly believes the key drivers of long-term success for banks are maintaining balance sheets with ample capital and sustaining a conservative credit culture. Even if gloomy scenarios play out, banks with ample capital and strong credit cultures should be well-equipped to continue compounding book value at high rates.

Book value may have lost some prestige as a valuation measure over the past 10 years as "new economy" companies have gained prominence, but it remains a crucial performance barometer for banks. The table below illustrates tangible book value growth plus dividends for the Fund's four bank holdings as compared to total shareholder return over the past five years. It is clear that despite stellar book value growth, shareholder returns have lagged. Interest rate volatility over the past five years has dominated the sector narrative, yet many individual companies march on with steady intrinsic value growth. Investors are fighting the last war, fueling excessive fear that as the economy slows, write-offs will surge and balance sheets will be impaired. From a regulatory perspective, much has changed over the past fifteen years. Oversight and capital requirements are far more stringent than they were prior to the global financial crisis ("GFC"). If the economy slows or experiences a recession, capital and reserve levels should allow the banks to endure the pains much better than previous cycles.

Bank	5-Yr Annualized Return	5-Yr TBV[6], plus dividend growth	Adjusted TBV plus dividend growth
UMBF	4.5%	8.0%	13.7%
WASH	2.0%	11.0%	17.9%
PB	3.7%	12.0%	12.0%
SBSI	4.7%	8.0%	13.6%

Average time period: 12/3/17-12/31/22
Source: Capital IQ, Company Filings
Note: All returns annualized.

The far right-hand column in the above table adjusts bond holdings to cost. Book value growth was diluted in 2022 due to accounting rules which require that available for sale securities must be marked to market. Although the economic impacts are immaterial as most securities are held to maturity, the accounting impacts were material given the dreadful year for fixed-income. The accounting adjustments will reverse as the securities mature. It's clear that despite the accounting adjustments, tangible book values are growing at healthy rates. Excluding the likely temporary adjustments, tangible book value growth has been exceptional. As bond holdings mature and proceeds re-invested, the negative marks will reverse which should serve as a tailwind to book value growth.

Why hasn't the prevailing narrative come around to our optimistic view that the Fund's banks will continue to compound capital in a potentially slowing economy? Following are the three primary arguments against owning banks currently. We will address each and how our banks are positioned.

1. **Recession Impacts**
2. **Net Interest Income Pressure**
3. **Credit Risks**

1. RECESSION IMPACTS

If the economy slows, bank loan losses will likely rise. It is critical that banks have ample capital to absorb potential losses. We believe our bank holdings are in an advantageous position. Tier 1 Common Equity (CET1) is a measure of a bank's most liquid capital relative to its risk weighted assets. It's a metric we study closely as it illustrates a bank's ability to absorb losses in times of stress. Following lists the CET1 ratios for the Fund's holdings.

Bank	UMB Financial	Washington Trust	Prosperity Bank	Southside Bancshares
CET1	11%	11.5%	15.4%	13%

Average time period: 12/3/17-12/31/22
Source: Capital IQ

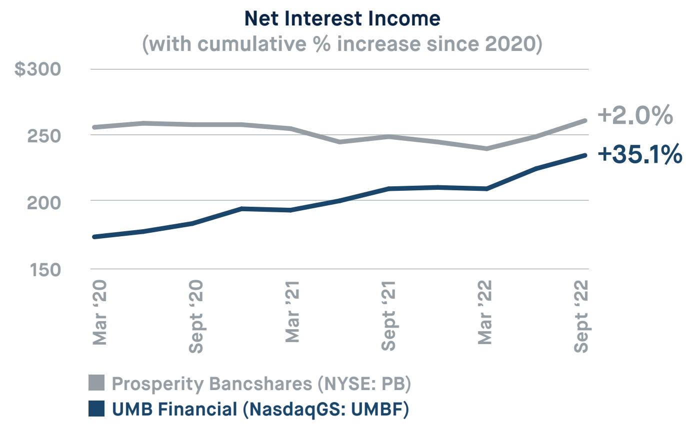
The regulatory minimum CET1 to risk-weighted asset ratio is 4.5%. The CET1 ratios for the Fund's holdings are more than double (in some cases triple) the regulatory minimums. Management teams signaled additional confidence in their capital positions in 2022 by repurchasing shares despite macro-economic fears. That development is particularly noteworthy as Prosperity Bank and Washington Trust infrequently repurchase shares.

2. NET INTEREST INCOME[7] PRESSURE

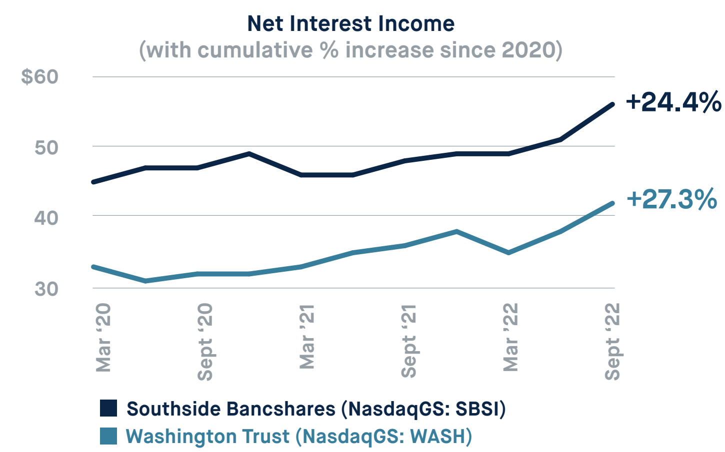
Net interest margins are an obsession for bank investors. Net interest margins represent the difference between what banks earn on assets such as bond holdings and loans compared to funding costs on liabilities such as deposits or debt. Our banks are well-positioned for a few reasons. Fund Management gravitates towards banks with low loan to deposit ratios and high-quality deposits. Deposits are the raw material needed for banks to grow over time. Banks with low loan to deposit ratios have ample room to grow without having to aggressively raise interest rates offered to gain new, lower-quality deposits. In addition, banks with low cost deposit bases tend to attract customers who are focused on factors beyond deposit yields. Deposit costs may rise for our banks, but likely not as much as peers given the quality deposit bases they possess.

Net interest margins are a driver of net interest income, but not the only one. The quantity of earning assets is also important. Earning assets have grown at exceptional rates since 2020 muting the impacts of lower margins. The chart to the upper right illustrates net interest income changes for the Fund's four banks since 2020. It is clear that despite margin pressure, net interest income has remained steady due to sizable increases in the quantity of earning assets. As mentioned earlier, it is a credit to our banks that they have sticky depositors who are attracted to the bank for more reasons than price. We are confident in the deposit bases on the Fund's bank holdings. The hockey stick trajectory of the net interest income trend highlighted in the charts below is noteworthy. As the Federal Reserve boosted rates in 2022, net interest income rose immediately and net interest margins expanded. The current narrative suggests margins have peaked. Perhaps, but despite the improvement, margins remain below long-term averages. Bank investors are projecting lower net interest margins and earning assets in 2023. That outlook seems overly pessimistic.

TAM BANKS WITH >$10 BILLION ASSETS



TAM BANKS WITH <$10 BILLION ASSETS



Note: Banks in the Net Interest Income charts segregated for scale.
Source: Company Filings, Third Avenue Management

3. CREDIT RISKS

In the early stages of researching a bank investment, Fund Management reviews the bank's experience during the GFC. Reviewing loan provisions and book value changes during that period speaks volumes about the credit culture of the company. Each of the four bank holdings delivered exceptional performance during the GFC. And notably, three of the four management teams from the GFC remain at the helm for our banks today (Washington Trust as the exception).

Industrywide charge-offs have been immaterial in aggregate over the past two years. That is not surprising given the fiscal and monetary stimulus injected into the economy resulting in a benign credit environment. We believe there is a high probability credit will deteriorate in 2023 and beyond. Thus, our focus has been on the reserves set aside for future losses. The chart on the following page shows loan loss reserves as of 9/30/22 compared to total loans and non-performing assets. Reserves are strong absolutely and relative to 10-year averages.

Bank	Reserve/Total Loans	10-Yr Avg	Reserve to NPA's[8]	10-Yr Avg
UMBF	0.9%	1.0%	9.3	2.7
WASH	0.8%	0.9%	3.1	2
PB	1.5%	1.0%	14.1	4.6
SBSI	0.9%	0.9%	3.1	1.7

Average time period: 12/3/12-12/31/22
Source: Capital IQ

Fund Management cannot speak for all banks, only ours. We also do not spend time trying to project where the economy is heading. Instead, we seek investments in companies that are prepared for adverse outcomes. We believe the Fund's four bank holdings have an adequate margin of safety to endure tougher times. Capital levels are high, strong credit cultures are entrenched and reserves are adequate to absorb heightened credit costs. Other investors can fight the last war, but we believe our banks will compound book value over time.

We wish you good health and prosperity in 2023. We thank you for your continued support and look forward to writing to you again next quarter. In the interim, please don't hesitate to contact us with any questions, comments, or ideas at clientservice@thirdave.com.

Sincerely,

Vic Cunningham – CFA

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.

The information in this portfolio manager letter represents the opinions of the portfolio manager(s) and is not intended to be a forecast of future events, a guarantee of future results or investment advice. Views expressed are those of the portfolio manager(s) and may differ from those of other portfolio managers or of the firm as a whole. Also, please note that any discussion of the Fund's holdings, the Fund's performance, and the portfolio manager(s) views are as of December 31, 2022 (except as otherwise stated), and are subject to change without notice. Certain information contained in this letter constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "project," "estimate," "intend," "continue" or "believe," or the negatives thereof (such as "may not," "should not," "are not expected to," etc.) or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual performance of any fund may differ materially from those reflected or contemplated in any such forward-looking statement. 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 18, 2023

1 The **Russell 2000® Value Index** measures the performance of small-cap value segment of the US equity universe. It includes those Russell 2000® companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2000® Value Index is constructed to provide a comprehensive and unbiased barometer for the small-cap value segment. The index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set and that the represented companies continue to reflect value characteristic.

2 **Return of Capital** occurs when an investor receives a portion of their original investment that is not considered income or capital gains from the investment.

3 Among funds in the Morningstar Small Cap Value Funds category, the Third Avenue Small Cap Value Fund ranked in the 8% for the 1-year period out of 481 funds, 38% for the 5-year period out of 426 funds and ranked in the 53% for the 10-year period out of 322 funds, as of 12/31/22. Morningstar Absolute Rankings represent a fund's total return rank relative to all funds that have the same Morningstar Category. The highest rank is 1 and the lowest is 100 based on the total number of funds ranked in the category. It is based on Morningstar total return, which includes both income and capital gains of losses and is not adjusted for sales charges or redemption fees.

4 **Margin of Safety** is a principle of investing in which an investor only purchases securities when their market price is significantly below their intrinsic value.

5 **Book Value** is equal to the cost of carrying an asset on a company's balance sheet, and firms calculate it netting the asset against its accumulated depreciation.

6 **Tangible Book Value** (TBV) of a company is what common shareholders can expect to receive if a firm goes bankrupt—thereby forcing the liquidation of its assets at the book value price. Source: Investopedia4 Net Interest Income is a financial performance measure that reflects the difference between the revenue generated from a bank's interest-bearing assets and the expenses associated with paying on its interest-bearing liabilities. Source: Investopedia5 Non-Performing Asset (NPA) refers to a classification for loans or advances that are in default or in arrears. Source: Investopedia

7 **Net Interest Income** is a financial performance measure that reflects the difference between the revenue generated from a bank's interest-bearing assets and the expenses associated with paying on its interest-bearing liabilities. Source: Investopedia

8 **Non-Performing Asset** (NPA) refers to a classification for loans or advances that are in default or in arrears. Source: Investopedia

THIRD AVENUE MANAGEMENT

SMALL-CAP VALUE FUND

AS OF DECEMBER 31, 2022

INSTITUTIONAL: TASCX | INVESTOR: TVSVX | Z: TASZX

FUND PERFORMANCE

As of December 31, 2022

	3 mo	1 yr	3 yr	5 yr	10 yr	Inception	Inception Date
Third Ave Small-Cap Value Fund (Inst. Class)	10.85%	-1.82%	6.23%	5.23%	8.48%	8.25%	4/1/1997
Third Ave Small-Cap Value Fund (Inv. Class)	10.75%	-2.09%	5.96%	4.96%	8.21%	8.31%	12/31/2009
Third Ave Small-Cap Value Fund (Z Class)	10.86%	-1.77%	6.32%	N/A	N/A	5.76%	2/28/2018

TOP TEN HOLDINGS

Allocations are subject to change without notice

	TASCX
Tidewater, Inc.	10.0%
UMB Financial Corp.	6.7%
MYR Group, Inc.	5.8%
Seaboard Corp.	5.5%
Washington Trust Bancorp, Inc.	5.3%
Southside Bancshares, Inc.	4.7%
Prosperity Bancshares, Inc.	4.6%
Hamilton Beach Brands Holding Co.	4.4%
FRP Holdings, Inc.	4.2%
ProAssurance Corp.	4.1%
Total	**53.3%**

THIRD AVENUE MANAGEMENT

/third-ave-management

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:

675 Third Avenue, Suite 2900-05
New York, New York 10017
www.thirdave.com

E: clientservice@thirdave.com
P: 212.906.1160