



THIRD AVENUE
MANAGEMENT

SMALL-CAP VALUE FUND

AS OF MARCH 31, 2023

INSTITUTIONAL: TASCX | INVESTOR: TVSVX | Z: TASZX

PORTFOLIO MANAGER COMMENTARY

VICTOR CUNNINGHAM, CFA

Dear Fellow Shareholders,

The Third Avenue Small-Cap Value Fund (the “Fund”) returned 4.16% during the first quarter of 2023 versus a decline of 0.66% for the Fund’s most relevant benchmark, the Russell 2000 Value Index (the “Index”).¹ Volatility was extreme with the Index rising 9.5% in January and then declining over 15% until the last week of March. A sudden decline in interest rates led to a market rebound late in the quarter. The interest rate decline helped the largest, most liquid stocks disproportionately as Small Caps lagged by a wide margin in the first quarter. The Russell 2000 Index is now trailing the S&P 500 Index² by 600 basis points (bps) annualized over the past five years. In contrast, over a 20-year period, both indices returned roughly 10% per year. The steady stream of funds flowing into large cap companies (namely large cap technology companies) regardless of valuation or operating performance logically should subside at some point. This should position Small Caps for a handsome rebound. As John Templeton famously said, “successful investing requires doing what others are not doing.” Fund Management was highly opportunistic in the first quarter, trimming positions where the valuations were getting rich while redeploying capital into companies with more favorable risk/return characteristics. The focus on dispassionate fundamental analysis and risk control are critical drivers towards delivering attractive risk-adjusted returns over time.

It was gratifying that the strongest performers in the Fund were boosted by exceptional operating performance. First quarter absolute performance was driven by strong returns from MYR Group, Alamo Group, and Comfort Systems. All three companies rose over 20% after reporting stellar fourth quarter earnings. Tidewater rose over 19% as well which lifted absolute performance.

Fund Management is highly attracted to companies that disclose backlog (booked future orders) in their quarterly earnings reports as they often provide clues about future performance. In addition, in a market environment that is heavily driven by electronic trading, backlog does not show up in the financial statements making it more difficult to track using quantitative screens. Thus, it provides an analytical edge to those who read the disclosures carefully. The Fund owns a handful of “backlog companies”, and despite fears of an impending recession, these companies are growing at rapid rates due to highly attractive end-markets. The chart below lists the Fund’s “backlog companies” including end-market details and backlog growth. Despite stellar performance over the past year, we remain optimistic about future prospects.

Strong Fund absolute performance was diluted by the sell-off in regional banks. We outlined our thesis on the Fund’s bank investments in the [previous shareholder letter](#) and were pleased with fourth quarter 2022 operating results. The positive sentiment generated by the earnings reports quickly evaporated after the regional bank failures of Silicon Valley Bank, Signature Bank and Silvergate Capital. There were company specific issues which precipitated the demise of those companies. On the other hand, the speed of the deposit withdrawals was shocking and highlighted the inherent risks embedded in bank investments. Investors are clearly rethinking their willingness to own banks after the bankruptcies. We remain confident in the franchises and cultures of the Fund’s bank holdings. We have assessed downside scenarios to maintain comfort in the margin of safety embedded in the investments. Security selection is paramount moving forward as deposit shuffling and pressure to boost yields on deposits will be intense. We acknowledge that the risks have risen since year-end and are monitoring the situation closely. It’s a consensus view that regional banks are a critical component of a thriving US economy. Government officials are wary of the largest banks getting bigger and many small and mid-sized businesses are heavily reliant on regional banks. Something must be done. Universal deposit coverage is impractical, yet we are optimistic that between the public and private sector, safeguards will be developed which can strengthen the deposit insurance market.

We are confident the Fund’s banks are well-managed and maintain defensible asset portfolios. The Fund’s banks have diversified, long-tenured deposit bases, excess capital and disciplined credit cultures. That belief has not changed. Unfortunately, even well-managed banks face risks of a bank run. In an era of social media and electronic banking, those risks are higher than they have been during previous banking scares.

Despite the excessive fears in the first quarter, we received positive news from our banks. First, the Fund’s largest bank investment, UMB Financial, disclosed encouraging results on April 3rd to address investor fears. Contrary to the narrative surrounding the company, average deposits and loans rose in the first quarter and the loan to deposit ratio was nearly unchanged. Adjusted uninsured deposits were also in-line with industry averages. UMB Financial has been proactive in providing disclosures during the crisis. UMB Financial and Prosperity experienced insider buying in the wake of the bank

Company Ticker	End Market Demand	YE Backlog Q4 2022	YE Backlog Q4 2021	YoY Backlog Growth	Full-Year Revenue 2022	Backlog Coverage
ICFI	Digitization, Environmental Consulting	\$3,900.0	\$3,200.0	+21.88%	\$1,780.0	219.11%
ALG	State/Federal CapEx Spending	\$1,003.0	\$797.3	+25.80%	\$1,513.6	66.27%
EME	HVAC Air Quality, Energy Efficiency	\$7,459.0	\$5,599.0	+33.22%	\$11,076.1	67.34%
MYRG	EV build-out, Grid Hardening	\$2,500.0	\$1,789.2	+39.73%	\$3,008.5	83.10%
FIX	HVAC Air Quality, Energy Efficiency	\$4060.0	\$2,310.0	+75.76%	\$4,140.4	98.06%

failures, illustrating confidence in the corporate outlooks for those companies. It is notable that UMBF's CEO owns 9% of the shares outstanding as well. Our base case currently is last month's events are reminiscent of the Russian ruble crisis/ Long-Term Capital Management failure in 1998. Financial institutions grew complacent about their funding sources. The crisis was a wake-up call which resulted in companies altering financing strategies away from excessive short-term funding. Banks should adjust going forward as well, which should ultimately make the franchises more durable. We were quite pleased with the actions and information provided thus far and are confident the other bank holdings will provide comprehensive data to investors this month as well.

While contemplating the Fund's bank exposures, we were reminded of the book, *Lessons from Century Club Companies*. True to the title, the book highlights the common traits of companies in business over 100 years. A culture of survival is the ultimate performance measure for these companies. It's noteworthy that all the regional banks that failed in 2023 were founded in the 1980's or later. Those companies did not have to survive the high inflation period of the 1970's and were not prepared for the conditions we are currently experiencing. Lacking wisdom may have encouraged those companies to chase hot trends in cryptocurrency or high-tech investing as well. On the other hand, Prosperity Bank was founded in 1983 and is the youngest bank in the Fund. Washington Trust was founded in 1800, UMB Financial in 1913 and Southside Bancshares in 1960. These companies survived wars, depressions and rampant inflation in the 70's and 80's. Those experiences helped them to steer clear of hot trends and instead focus on diversification, gathering quality deposits and prudently deploying the capital into loans and securities. We are confident the lessons learned will help them manage through the current crisis and mean-revert to historical valuations. The rapid decline in interest rates late in 1Q 2023 should also provide a tailwind for book value growth if current rates persist.

ACTIVITY

Although there were no positions added or subtracted during the quarter, Fund Management was relatively active. Three of the Fund's strongest performers over the past year were trimmed (Tidewater, MYR Group and Tri-Pointe Homes) and a portion of the proceeds were allocated to five positions that were attractively priced at time of purchase (ProAssurance Corp., Madison Square Garden Entertainment, Encore Capital Group, UMB Financial and Washington Trust). In all cases, knowing what we own and having conviction in our NAV estimates helped us to quickly deploy capital during stressful market environments. We strongly believe that activity is the enemy of exceptional investment performance. Yet, when fear and greed are pivoting from one extreme to the other, it's critical to be nimble.

Chris and I took advantage of the volatility as well by adding to our Fund holdings in the first quarter of 2023.

PORTFOLIO UPDATE

There were 26 positions in the Fund at quarter-end, unchanged from December 31, 2022. Cash at quarter-end stood at approximately 10%, up from 6% on December 31, 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 first quarter, long-term compounders represented approximately 61% of the portfolio, and time-arbitrage/special-situation positions represented approximately 29%.

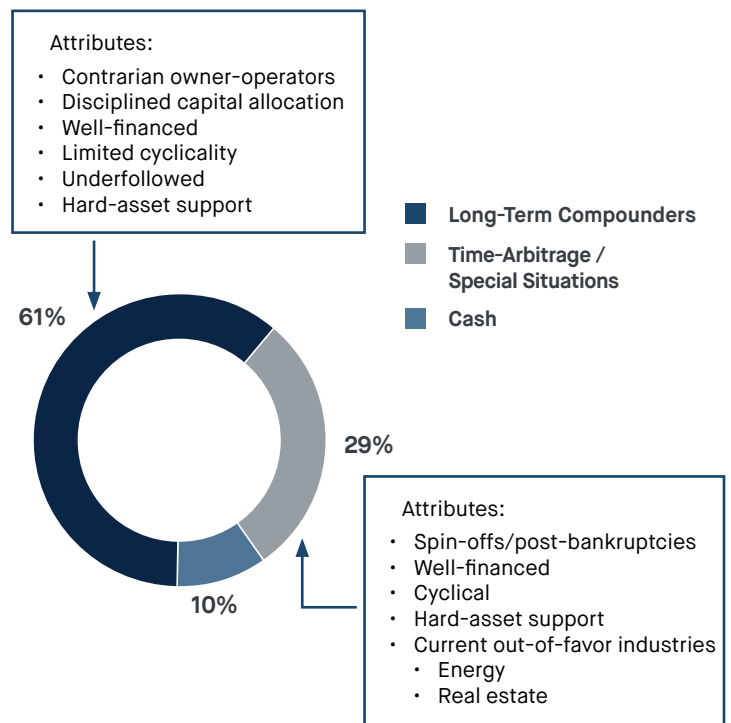
The Fund's compounder category (or "bucket") includes companies such as Seaboard (conglomerate), MYR Group (engineering and construction), and FRP Holdings (real estate developer/aggregates). We believe balance sheet strength and prudent capital allocation should allow these companies to compound NAV for many years to come. Financial services companies are roughly half of the compounder category, and well-capitalized regional banks make up 17% 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 rose to 11.5% in the first quarter from 9% last quarter due to changes in portfolio positioning and portfolio company NAV's growing at a faster pace than their stock prices.

Following is a visual overview of the portfolio:

ASSET ALLOCATION AS OF MARCH 31, 2023



FUND POSITIONING

Resource conversion is a frequently used term at Third Avenue. Our founder, Martin Whitman, coined it to describe when a company creates wealth through M&A, changes in control, recapitalization or spin-offs. Resource conversion activities have been robust for the Fund's portfolio holdings in 2023. Not surprisingly, the actions have been centered around companies that do not lend themselves to conventional analysis and have achieved modest capital appreciation over the past few years. In response, management teams have been eager to highlight the underlying values of their assets through resource conversion. These companies do not generate material earnings (if any) and are instead valued using conservative assumptions of their assets to determine net asset values. After a challenging investing environment in 2022, it was not surprising to see an outsized amount of resource conversion activities by Fund management teams. We were pleased to see management taking matters into their own hands.

Westaim

Westaim is a financial services conglomerate that has been a laggard since the Fund began accumulating shares in 2018. Over that time frame, Westaim has restructured its property and casualty insurance segment and grown its Arena Investors unit into a \$3.5B asset management company. Despite the progress, investors shrugged.

In January, Westaim spun-out the property and casualty insurance company, Skyward Specialty. Westaim retained a 44% interest in the company post the spin-off. The shares were listed at \$15/share at the time of the spin and at quarter-end, the share price exceeded \$19/share. Highlighting the value of the insurance assets helped Westaim's share price rise 12% in the first quarter. Despite the strong quarter, Westaim still trades at a discount to tangible book value which should motivate management towards future strategic actions.

FRP Holdings

Long-term holding, FRP Holdings closed on significant transactions in the first quarter as well. FRP Holdings owns a collection of multi-family and industrial real estate predominantly in the DC metro area as well as a highly attractive aggregates business. Its prime assets are waterfront property in the Capitol Riverfront and Buzzard Point submarkets near the southern entrance to Washington DC. FRP sold a partial interest in two buildings directly across the street from Washington Nationals Park and consolidated waterfront property with two development partners. In exchange, it received cash and access to four adjacent parcels of land. The cash will be used to fund future development. The completed project will comprise 0.25 mile of uninterrupted waterfront property along the Anacostia River including 3,000 residential units and 150,000 sq. ft of retail. This area is one of the hottest real estate markets in the US. FRP also added to its aggregates assets in Florida which was the first mining acquisition in over a decade. With net cash and equivalents equal to roughly 30% of the market capitalization, FRP Holdings has ample capital and seasoned partners to develop assets in the DC metro area and beyond. FRP Holdings rose over 7% in the quarter.

The positive reception from the Westaim and FRP Holdings moves could be a leading indicator for three of the Fund's other holdings, who also announced significant transactions in the first quarter. Madison Square Garden Entertainment and Liberty Braves announced spin-offs of unique assets and Tidewater made an opportunistic acquisition boosting its offshore vehicle portfolio.

Madison Square Garden Entertainment (MSGE)

MSGE has for nearly two years been an amalgamation of NY entertainment, restaurant, and cable network assets that has funneled its cash flows into the development of a state-of-the-art Las Vegas concert venue called "the Sphere". As it nears its stated opening in Q3 2023, management can see that the assets are not receiving the premium valuation hoped for. So, in Q1 they decided to take proactive steps to unlock shareholder value by separating the New York assets from the Las Vegas assets. The spinoff is scheduled to be completed by April 20th, a catalyst that we believe could highlight the value of the Sphere that MSGE will have spent \$2.175 billion on while the market capitalization of the entire company sits at \$2.055 billion today.

Liberty Braves

John Malone is a known creator of wealth for those who have invested alongside him for decades. Notably averse to unnecessary tax consequences, Liberty Media exchanged Time Warner common stock for a subsidiary of Time Warner which holds the Atlanta Braves in 2007. It also acquired the surrounding mixed-used real estate near the ballpark and successfully developed those assets. The area is known as the Battery Atlanta and has proven to be a popular location for business and entertainment in Atlanta. Management has done an excellent job growing the operations including winning a World Series championship in 2021. The Atlanta Braves are currently valued at \$2.6B by Forbes making it the 8th most valuable franchise in Major League Baseball. This compares to an end of quarter market capitalization of approximately \$1.9B for the entire Liberty Braves group entity. Liberty Media has announced the Q2 2023 deadline of spinning off the Liberty Braves into an asset-backed stock to better highlight its baseball and real estate assets as well as enhance liquidity for shareholders. Private equity has grown into a major player in sports-related investing. In the past two years, the industry has raised over \$100B for future transactions. The timing of the Liberty Braves spin-off is likely linked to this burgeoning trend.

Tidewater

Energy services provider, Tidewater, was also active in the first quarter. It has diligently maintained a strong balance sheet since going public in 2017 while enduring depression level industry conditions since that time. Plenty of peers are still laboring against heavy debt burdens. Tidewater was able to take advantage by purchasing assets from Solstad Offshore in the first quarter, expanding its fleet by nearly 20%. The pricing was attractive and should help Tidewater benefit from the potential for heightened offshore oil drilling over the next few years.

CONCLUSION

Third Avenue's bottom-up, asset-based approach is non-conventional. It is not surprising that the Small Cap Value Fund's active share (percentage of the fund that differs from the Index), exceeds 98%. We are pleased to be aligned with companies that are distinctly managed and have the ability to highlight values beyond simply earnings and cash flow. We are optimistic about the potential for more value creating strategic actions from management teams at our portfolio holdings in the future.

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,

A handwritten signature in black ink that reads "V. T. Cunningham". The signature is written in a cursive, slightly stylized font.

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 March 31, 2023 (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: April 14, 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 **S&P 500 Index**, or Standard & Poor's 500 Index, is a market-capitalization-weighted index of 500 leading publicly traded companies in the U.S.



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AS OF MARCH 31, 2023

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FUND PERFORMANCE

As of March 31, 2023

	3 mo	1 yr	3 yr	5 yr	10 yr	Inception	Inception Date
Third Ave Small-Cap Value Fund (Inst. Class)	4.16%	2.72%	21.04%	5.61%	7.77%	8.34%	4/1/1997
Third Ave Small-Cap Value Fund (Inv. Class)	4.13%	2.46%	20.76%	5.36%	7.50%	8.48%	12/31/2009
Third Ave Small-Cap Value Fund (Z Class)	4.20%	2.81%	21.15%	5.72%	N/A	6.33%	2/28/2018

TOP TEN HOLDINGS

Allocations are subject to change without notice

	TASCX
MYR Group, Inc.	6.6%
Tidewater, Inc.	6.2%
Seaboard Corp.	5.3%
UMB Financial Corp.	5.2%
ProAssurance Corp.	4.9%
FRP Holdings, Inc.	4.4%
Washington Trust Bancorp, Inc.	4.3%
ICF International, Inc.	4.2%
Southside Bancshares, Inc.	4.2%
Encore Capital Group, Inc.	4.0%
Total	49.3%

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%, 1.57% and 1.19%, respectively, as of March 1, 2023.

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 website 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 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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