THIRD AVENUE
MANAGEMENT

VALUE FUND

AS OF JUNE 30, 2021

INSTITUTIONAL: TAVFX | INVESTOR: TVFVX | Z: TAVZX

PORTFOLIO MANAGER COMMENTARY

MATTHEW FINE, CFA

Dear Shareholders,

For the three months ended June 30th, 2021, the Third Avenue Value Fund (the "Fund") returned 4.34%, compared to the MSCI World Index, which returned 7.88%.[1] This quarter's positive performance brought the Fund's year to date performance to 25.26%, compared to 13.33% for the MSCI World Index. With this most recent quarter, the previous two quarter streak of global value strategy outperformance was broken as the MSCI World Value Index[2] returned 4.90% during the second quarter, trailing the MSCI World Index by 2.98%. The MSCI World Growth Index[3] returned 10.87% in the second quarter with a particularly large outperformance in the month of June. We remain generally pleased with the operating performance of Fund holdings and satisfied with the recent performance of the Fund in aggregate but continue to believe firmly that the attractiveness of the Third Avenue Value Fund portfolio, current equity market fundamentals, and the macroeconomic landscape, tilt the probabilities of future relative outperformance in our favor. We address these topics throughout the course of this letter.

THE VIEW FROM ABOVE

Bernard Baruch said that "now is always the hardest time to invest" but we are inclined to view the current investing landscape as unusually unusual and feel compelled to communicate several thoughts that are more macroeconomic in nature than is typical for our team. In any event, an occasional survey of the macro landscape can be constructive for a fundamental value investing team in so far as it might influence risk control and inform the team as to where efforts to identify genuinely undervalued securities may have a higher probability of success. Our current view is that global equity indices are expensive, and quite a few individual companies contained within them are outrageously expensive. From a global perspective, the phenomenon certainly appears to be most acute in the United States. We think that the evidence strongly supports these conclusions and we continue to find the most common counterargument—if interest rates remain at rock bottom levels, elevated stock prices could indeed be justified—to be extremely unappealing. That type of relativist thinking and acceptance of diminishing returns in exchange for undiminished risk has been the foundation for many regrettable investment decisions.

First, what do we mean when we say that stocks are generally expensive and quite a few outrageously so? Equity index valuation multiples in the United States today are thoroughly divorced from long-term averages by almost any measurement. There are many statistics with which one might measure valuation, and no single one of them is expositive, but one that is more thoughtful than many others, in our view, is the Case-Shiller Cyclically Adjusted PE Ratio (CAPE)[4]. CAPE essentially measures valuation based on company earnings over the preceding ten years. The statistic isn't complicated or obscure, but it is important. Today, that cyclically adjusted price to earnings multiple is roughly 38 for the S&P 500[5] as compared to a long-term average of roughly 18. We have constructed a CAPE chart for the S&P 500 below, along with the yield on the U.S. 10-year bond, since 1920. The most glaring, and unnerving, observation is that where we are today has, over the last 100 years, only been rivaled by the historic peaks in 1929 and the Tech Bubble of the late 1990s. Equity market developments following those peaks were also unusual in terms of the extent of losses inflicted upon investors. That said, these observations have no predictive power as to the size or timing of any potential correction and U.S. equity markets could certainly become even more expensive. We suppose one could also argue that this time is indeed different and that the CAPE ratio simply doesn't apply to today's U.S. mega-cap companies, which dominate indices, because they are simply better secular growth companies than have existed during the past 100 years. We strongly suspect that history will prove that not to be the case and think such an outlook lacks some historical awareness of the exuberance that surrounded revolutionary companies of decades past that were also perceived to have virtually unlimited runways for secular growth ahead of them.

S&P 500 CASE-SHILLER CAPE RATIO vs US 10YR YIELD

Source: Online Data - Robert Shiller (yale.edu).

Furthermore, one should also note that both the rise and fall of the tech bubble of the 1990s occurred in the context of the multi-decade decline of U.S. interest rates. The historical record does not support the idea that stock market valuations are directly related to government bond yields. Yet, even in the event that interest rate declines are a legitimate cause for equity multiple expansion, today the potential for further interest rate declines, from already unprecedented levels, appears very limited. Meanwhile, the U.S. equity market's recent valuation multiple expansion has occurred in the context of rapidly rising retail investor participation and an expanding use of margin finance, again mirroring other historical periods of excessive exuberance.

Interestingly, notwithstanding the strong relative performance of value strategies in recent quarters, expensive stocks remain wildly expensive relative to cheap stocks, almost to a record breaking degree in the United States. Below we have included a chart that depicts the difference between the price to earnings multiples assigned to the most and least expensive quartiles of the S&P 500 over a 40 year period. In a word, it is extremely rare for the most favored companies to be valued as richly, relative to the least favored, as they are today. We recognize that we are talking our own book but, in spite of recent strong performance for the Fund, we continue to be somewhat surprised by the presence of attractive long-term value opportunities in the midst of an ostensibly overpriced equity market, an observation that also mirrors our experience from the late 1990s. Granted, to an increasing extent, securities of interest to us are being found outside of the U.S. We think this is a particularly important time for investors to concern themselves with valuation and business model durability given what we view as a dangerously high likelihood that a meaningful portion of the U.S. equity market will eventually be subject to an "Emperor has no clothes" moment. After all, there is a shockingly large contingent of companies within global equity markets today for which an honest debate could be had about whether the businesses are even viable enterprises. Just doing a large volume of business does not, in and of itself, make an enterprise valuable.

S&P 500[5] INTERQUARTILE P/E[6] SPREAD

*The Interquartile Range measures the difference between the 75th percentile (higher) and 25th percentile (lower) P/E multiple of S&P 500 Index constituents.

Source: Company Reports, Berenberg.

Leaving aside the many trillions of dollars of market capitalization associated with highly profitable but richly valued, mega-cap, U.S. equities today, in recent years we have also seen a rapid proliferation of highly valued but profitless companies grow to a substantial portion of various equity markets. Today, profitless companies comprise a record percentage of several U.S. equity indices. The trend had been developing for years prior to the pandemic but has recently accelerated. Our team recently ran a screen for U.S. listed companies with market capitalizations greater than $2 billion that have not produced positive EBITDA[7] in ANY of the past five years. There were 112 companies fitting that description amounting to an aggregate market cap of $ 1.76 trillion. To say that again, at present, there are $1.76 trillion worth of companies listed in the U.S. alone that have been unprofitable for the last five years consecutively, as measured by EBITDA, among the most forgiving metrics by which one could measure profit. This group of companies is, in aggregate, trading at greater than 11x revenue and in 2020 produced an EBITDA margin of negative 20%. In other words, these companies lost 20 cents on every dollar of revenue produced, and that is before any capitalized reinvestment in the business to fund future growth.

As a blunt summary, we have no reason to believe that this time is different. We think that the evidence suggests distortions within equity markets, and between cheap and expensive in particular, will continue a process of reversion closer to historical norms over time. The view that ultra-low interest rates justifies enormous business valuations, let alone for those businesses that have arguably not yet proven that they are even viable, rings extremely hollow to us. Yet, regardless of its validity, to the extent that interest rates rise in the future, it is likely to weaken even that one fragile leg of the argument.

INTEREST RATES AND INFLATION

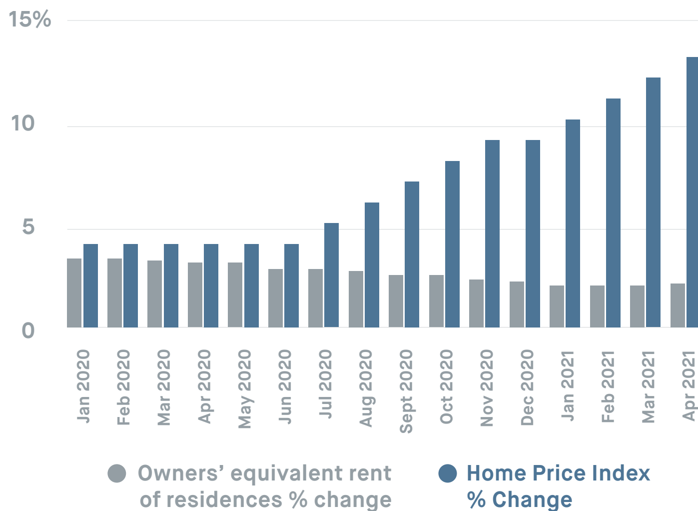
Today the U.S 10-year yield remains close to multi-century lows and is negative approximately 2.2% in real terms. Meanwhile, we are increasingly experiencing rapid asset price inflation. As we write this letter, the world economy is recovering rapidly from the pandemic, shortages of basic materials are prevalent, energy prices have risen substantially above pre-pandemic levels, labor markets are increasingly tight and U.S. home prices rose by nearly 15% year over year in May. Various elements of the recent inflationary boost may indeed prove transitory but rising wages, which are increasingly common, are unlikely to be transitory. Furthermore, the June U.S. nonfarm payrolls suggest that the U.S. labor market is on pace to return to its very robust pre-pandemic level of employment in about ten months. It certainly seems reasonable, given that backdrop, to expect continued or increasing wage pressure. That probability is only increased to the extent that the U.S. labor force shrunk during the pandemic as a result of retirements and other life choices, as a number of economists suspect has happened.

> *"U.S. home prices surged at their fastest pace ever in April as buyers competing for a limited number of homes pushed the housing market to new records."*
>
> *– Wall Street Journal – 6/29/2021*

Furthermore, rising house prices are mirrored in many parts of the developed world to varying degrees and, frankly, seem to be a rational response to meaningfully negative real interest rates. As it relates to inflation as depicted by the Consumer Price Index (CPI)[8], the measurement of housing costs appears to be substantially disconnected from reality. As a quick refresher, shelter is approximately 33% of the CPI, which is mostly comprised of 7.7% for "rent of primary residence" (RPR) and 22% for "owners' equivalent rent of residences" (OER). In the former case, the U.S. government has estimated rental rates for primary residences to be growing at 2% or less in recent months. In the latter, OER attempts to estimate the theoretical rental value for owner-occupied homes by surveying the home owners themselves, most of whom are not in a position to make anything more than a guess. According to the OER methodology, which represents by far the largest single category within CPI,

market rental rates for owner-occupied homes have been growing slightly above 2% recently and at a decelerating pace. Below is a chart of OER statistics from the actual BLS reports overlaid with U.S. single family home prices.

HOUSE PRICES vs BLS RENTAL VALUE ESTIMATES



Source: Beauru of Labor Statistics (BLS); FRED Economic Data.

We can easily observe U.S. single-family home prices not only rising rapidly but rising at an accelerating rate. By comparison, the BLS estimation of OER says that rental values of owner-occupied homes has risen very modestly and at a decelerating pace. First, over time there is clearly a relationship between home purchase prices and the rental market as consumers make economic decisions about the relative affordability of buying compared to renting. Less theoretically, as the case may be today, would-be buyers may be priced-out of the purchase market and forced into the rental market creating incremental rental demand and upward rental price pressure. In support of this concept, and in stark contrast to the BLS survey, highly respected industry research firm Zelman & Associates estimates that single-family home rental rates grew between 5% and 6% year over year in each of the last three quarters and are predicting 5.4% single-family rental rate growth for 2021 in total. Zelman also calculates that occupancy for single-family home rentals is at a decade-high 98.5%, the number of applicants per available rental has nearly doubled in the last year and the average days a rental is on the market has fallen substantially in each of the last 12 months. And yet the BLS survey suggests that rent growth is growing modestly and at a declining rate? For rental homes in multi-family buildings, Zelman is predicting 2.7% growth for 2021. With multifamily rent growth expected to come in above 2.5%, rents on single family homes growing in excess of 5%, and single family purchase prices increasing at double-digit rates, clearly the BLS estimate of 2% housing cost inflation appears disconnected. Similarly, one of the largest owners of single-family homes for rent in the United States is American Home 4 Rent (AMH). In its most recent disclosures, AMH discloses that across its 53,984 homes in 22 states, blended leasing spreads were 6.9% in the first quarter of 2021. In other words, for all leases signed in the quarter, including renewals for existing tenants and leases to new tenants, the agreed upon rate was 6.9% higher than what was previously being paid. Invitation Homes, also among the largest single-family rental companies with roughly 80,000 homes across the United States, reports single-family leasing spreads even higher than AMH. We continue to harp on the shelter data in the BLS reports because a) it is the largest single component of CPI by far, b) it appears substantially divorced from reality causing a material understatement of inflation and c) we are confident that Fed governors are familiar with all of the data we have just referenced, even though CPI and PCE inflation indices do not reflect it. If BLS data understates the price increases of shelter by 3% or more, which appears likely, that would suggest that CPI is understated by 1% or more even within the BLS's own curious CPI framework.

Not surprisingly, Fed governors have recently begun "talking about talking about" when a gradual withdrawal of various forms of stimulus might be appropriate. A growing chorus is calling for the first step to be a withdrawal from mortgage-backed securities markets given how abundantly clear it is that U.S. housing markets do not need continuing Fed support and the risk of overheating is clear and present. This would mark the first step in a broader gradual withdrawal and a likely eventual normalization of credit markets. Going all the way back to the beginning, if growth-oriented U.S. equities have been heavily favored on the premise that they are cheap given such low interest rates, doesn't that make equities trading at extremely high multiples by any historical measurement very vulnerable? With this as the backdrop, we are particularly grateful for our flexible mandate that is first and foremost price-conscious, focused on well-capitalized companies, market-cap agnostic, and global.

THE PORTFOLIO TODAY

So then, how does all of this high-altitude thinking color our investment activity and the composition of the Fund? The first point I would make is that the vast majority of my personal investible assets are alongside yours within the Fund. Investment decisions are being made not on the basis of managing a highly marketable investment product but rather as an investment vehicle in which your portfolio manager intends to grow his personal capital, alongside yours, over long periods of time. At quarter end, the Fund's cash position stood at 11.45%, having risen from 3.75% at the end of 2020. Our rising cash position is not the result of a top-down asset allocation but simply the result of having sold more than we purchased during the last two quarters. The Fund's selling activity was focused in several areas, most notably the reduction of the position size of both our copper mining companies as both have performed exceptionally well and became larger positions than desired. We also exited our position in Eagle Materials on the basis of valuation. In the prior quarter we had exited Weyerhaeuser and Korn Ferry as well. Our investment activity, though only guided by our value discipline, reflects much of what was discussed above in the sense that net selling has taken place among U.S. holdings, while purchasing activity has taken place mostly in Asia. For the time being, it would not be surprising to see that continue. We also continue to believe that we are likely to perform relatively well in the most probable scenarios described above given the current positioning of the Fund, namely gradually rising interest rates towards more normal historical levels and a compression of the historic spread between expensive and cheap companies. Bank of Ireland, Deutsche

Bank and Old Republic would all be prime beneficiaries of higher interest rates and are, in our view, decidedly cheap even in the current environment. Further, notwithstanding recent strong performance, we continue to view our commodity-producing businesses—Capstone Mining, Interfor Corp, Lundin Mining, and Warrior Met Coal—as very inexpensive today. Their respective industries are today beneficiaries of their own lack of popularity, which led to a decade of underinvestment fostering today's supply limitations, which have led to higher prices for the commodities they produce. Higher and lasting inflation would likely be an additional tailwind for many of our positions but, by our math, Warrior is currently trading at approximately 2.3x the free cash flow[9] that would likely be generated over a typical year given current met coal prices. Interfor is, according to investment bank CIBC, trading at 2.1x EBITDA based on CIBC's estimate of normalized lumber prices of roughly $550 per thousand board feet. Meanwhile, at $800 per thousand board feet, lumber prices today are roughly 45% above that level even after having fallen nearly 50% from the recent peak. Both Warrior and Interfor have made large special dividends to shareholders in recent years as the substantial free cash flow has piled up making them overcapitalized. So, while we are clearly concerned by broad market valuations and are of a mind to exercise caution, we also believe that great value remains to be harvested in various industries and regions. Our portfolio activity will continue to be guided by those considerations.

QUARTERLY ACTIVITY

During the quarter ended June 30th, 2021, the Fund did not establish any new positions and exited one position, Eagle Materials.

Thank you for your confidence and your loyalty. We look forward to writing again next quarter. In the interim, please do not hesitate to contact us with questions or comments at clientservice@thirdave.com.

Sincerely,

Matthew Fine, 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 June 30, 2021 (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: July 13, 2021

1 The MSCI World Index is an unmanaged, free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of 23 of the world's most developed markets. Please see Appendix for performance table and information. One cannot invest in an index.

2 The MSCI World Value Index captures large and mid cap securities exhibiting overall value style characteristics across 23 Developed Markets (DM) countries. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield. Source: MSCI

3 The MSCI ACWI Growth Index captures large and mid cap securities exhibiting overall growth style characteristics across 23 Developed Markets (DM) countries* and 27 Emerging Markets (EM) countries*. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend. Source: MSCI

4 The CAPE Ratio (also known as the Shiller P/E or PE 10 Ratio) is an acronym for the Cyclically-Adjusted Price-to-Earnings Ratio. The ratio is calculated by dividing a company's stock price by the average of the company's earnings for the last ten years, adjusted for inflation. Source: Corporate Finance Institute

5 The S&P 500 Index, or the Standard & Poor's 500 Index, is a market-capitalization-weighted index of the 500 largest publicly-traded companies in the U.S. It is not an exact list of the top 500 U.S. companies by market capitalization because there are other criteria to be included in the index.

6 The price-to-earnings ratio (P/E ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings.

7 EBITDA, or earnings before interest, taxes, depreciation, and amortization, is a measure of a company's overall financial performance and is used as an alternative to net income in some circumstances. Source: Investopedia

8 The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Source: BLS

9 Free cash flow (FCF) represents the cash a company generates after accounting for cash outflows to support operations and maintain its capital assets. Unlike earnings or net income, free cash flow is a measure of profitability that excludes the non-cash expenses of the income statement and includes spending on equipment and assets as well as changes in working capital from the balance sheet. Source: Investopedia

THIRD AVENUE
MANAGEMENT

VALUE FUND

AS OF JUNE 30, 2021

INSTITUTIONAL: TAVFX | INVESTOR: TVFVX | Z: TAVZX

FUND PERFORMANCE

As of June 30, 2021

	3 mo	1 yr	3 yr	5 yr	10 yr	Inception	Inception Date
Third Ave Value Fund (Inst. Class)	4.34%	85.96%	6.75%	9.09%	6.05%	10.43%	11/1/1990
Third Ave Value Fund (Inv. Class)	4.27%	85.49%	6.49%	8.82%	5.78%	6.20%	12/31/2009
Third Ave Value Fund (Z Class)	4.36%	86.12%	6.86%	N/A	N/A	5.90%	2/28/2018

TOP TEN HOLDINGS

Allocations are subject to change without notice

	TAVFX
Bank of Ireland Group PLC	6.8%
Interfor Corp.	5.7%
Capstone Mining Corp.	5.4%
Deutsche Bank AG	4.3%
Bayerische Motoren Werke AG	4.2%
CK Hutchison Holdings, Ltd.	4.1%
Warrior Met Coal, Inc.	4.0%
Old Republic International Corp.	3.7%
Lundin Mining Corp.	3.6%
Comerica, Inc.	3.6%
Total	**45.4%**

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 1.27%, 1.52% and 1.15%, respectively, as of March 1, 2021. TAM has agreed to waive all accrued entitlements related to the fiscal periods Oct 31, 2017 and Oct 31, 2018, which would have been subject to repayment until Oct 31, 2020 and Oct 31, 2021, respectively.

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, 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.

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 and customized accounts. If you would like further information, please contact a Relationship Manager at:

622 Third Avenue, 32nd floor
New York, New York 10017
www.thirdave.com

E: clientservice@thirdave.com
P: 212.906.1160