THIRD AVENUE
MANAGEMENT

VALUE FUND

AS OF SEPTEMBER 30, 2022

INSTITUTIONAL: TAVFX | INVESTOR: TVFVX | Z: TAVZX

PORTFOLIO MANAGER COMMENTARY

MATTHEW FINE, CFA

Dear Shareholders,

For the three months ended September 30th, 2022, the Third Avenue Value Fund (the "Fund") returned -7.52%, as compared to the MSCI World Index[1], which returned -6.08%. For further comparison, the MSCI World Value Index[2] returned -7.08% during the quarter. Over the trailing three-year period, the Fund's total return averaged 11.65% per year, which compares to 5.06% for the MSCI World Index and 2.52% for the MSCI World Value Index.

FIVE YEARS ONWARD

The closing of this most recent quarter marks five years since I was named portfolio manager of the Third Avenue Value Fund. Previously, I had managed the Third Avenue International Value Fund and spent nearly two decades investing globally at Third Avenue Management. My appointment, along with other changes made by the firm at that time, shared the narrow intent of accentuating the Fund's philosophical roots and our firm's core long-term, fundamental, value investing competencies. At the time, we described the change as "designed to revitalize the deep value philosophy that has been key to the long-term success of our flagship Value Fund."[3] As a firm, we chose that path not because that is what we have always done, but because we believe firmly that price-conscious, fundamental investing is one of the very few reliable and repeatable means by which long-term outperformance has been achieved over decades. At that time, after several challenging years for value strategies broadly, our team also had a bit of a chip on our shoulder and were very eager to demonstrate that the tenets of fundamental value investing remain as valid today as they ever were.

That September, in our first letter to shareholders as the portfolio management team of the Third Avenue Value Fund, our team laid out our long-term aspirations for the Fund when we wrote:

"It is our view that shareholders want a genuinely differentiated investment approach, as an alternative to passive allocations... We will continue to focus on contrarian deep-value investing, special situations investments and other opportunities arising from complexity, fear and misunderstanding.... The intended outcome is to produce superior performance over longer periods of time, though not consistently in all periods of time, and we expect that the Fund will exhibit lower levels of correlation[4] to indices than the average fund in its peer group, likely offering diversification benefits for many shareholders' broader portfolios.[5]"

We could not have known in 2017 that several years of headwinds for value strategy performance would turn into gale-force headwinds. From the top-down, what followed over the next three years was one of the worst periods of broad value strategy relative underperformance on record. By way of example, the MSCI World Growth Index[6] outperformed the MSCI World Value Index by 15.7% *per year* from 2018-2020. It is my personal view that the 2018-2020 time period will be recorded in history as one of the great periods of speculative excess. At the time of this letter, many absolutely preposterous valuations are still making the savage, but inevitable, trip back to earth and the fantastical notions of "investing" which propelled them there are being laid to rest—that is, until the next speculative mania. Laying blame for those developments will not be part of this letter.

Meanwhile, a return to the philosophical roots of the Third Avenue Value Fund meant a substantial reallocation of the Fund's capital over the first two years our team was at the helm, particularly during 2018 when turnover reached 72%, a figure extremely out of character for our strategy.

ANNUAL TURNOVER

	2017	2018	2019	2020	2021
Third Avenue Value Fund	18%	72%	25%	22%	18%

Source: Third Avenue Funds Prospectus

Positioning the portfolio into a contrarian, deep-value, price-conscious approach, in an environment in which value strategies were deeply out of favor, had several important implications. The weighted average market capitalization of the Fund became smaller and the weight of foreign holdings grew, both as a result of where we found value. Most importantly though, the portfolio became substantially cheaper. While certainly an attribute more recently, as well as over long periods of time, throughout 2018-2020, managing a portfolio of very cheap businesses was a potent recipe for underperformance. Expensive large-cap companies, particularly U.S. growth-oriented companies, became relentlessly ever more expensive. Meanwhile cheap companies frustratingly churned along sideways from a valuation perspective. However, the directly-related corollary to such headwinds is that the same period of time was among the most attractive investing environments of my career, as measured by a prevalence of distressed valuations in areas that were clearly not distressed, operationally or financially. Well-capitalized companies, at virtually no risk of secular decline in our view, were available at extremely attractive prices. To a large extent that is still true today.

Finally, five years onward, we are pleased that carving our own path has resulted in our team establishing a very strong performance record among global value funds over the last one, three and five years. According to Bloomberg, the Fund's record places it within the top decile (10% or better) for the one-, three- and five-year trailing periods as of 10/18/2022[7]. That said, if history continues to repeat itself so reliably, we are optimistic that the Fund's best years may be ahead, as more orthodoxy returns to global capital markets and securities pricing regains a connection to actual business fundamentals. We think the record has shown that our strategy has the capacity to produce substantial outperformance in environments in which value strategies perform reasonably well. The 2022 year to date period has seen material outperformance for value strategies, in general, for the first time since 2016 and, during this period through September 30th, the Fund has outperformed the MSCI World Index by more than 18%. We obviously can't make representations about what the future holds for markets or our strategy's performance but we remain very encouraged by the prospect of a broad return to an investment environment marked by non-microscopic interest rates and more orthodox forms of investing.

	1 Year	3 Year	5 Year
TAVFX Decile Rank	1	1	1
# of Funds in Bloomberg Foreign Value Category	487	446	421

Source: Bloomberg as of 10/18/2022, Based on total returns

Burning the Floorboards: Energy Underinvestment, Resilient Demand, Declining Inventories

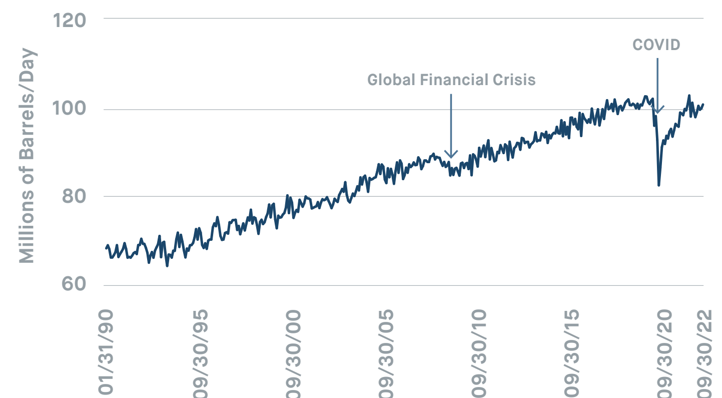
At quarter end, the Fund held investments in three offshore oil and gas services companies—namely, Tidewater, Subsea7, and Valaris—totaling 13.25% of the Fund by weight. We continue to include iterative discussions of energy markets in our quarterly letters, not only because oil services continue to be an important allocation of Fund capital, but also because the relationship of energy supply and energy demand is highly impactful upon energy pricing, inflation, and, in turn, interest rates and currency exchange rates. In one way or another, energy pricing permeates almost every corner of our investment universe.

In spite of being an important source of the Fund's outperformance year to date, collectively, this group of investments has been among the most trying of my tenure as portfolio manager. An improvement in the oil and gas capital spending cycle has taken years longer to eventuate than anticipated and, in retrospect, I was personally very slow to grasp the influence that proxy battles and public pressure could exert upon the business decisions of large publicly-traded international oil and gas companies. Be that as it may, we remain among the group of interested observers who expect that the length and severity of the oil and gas capital spending depression that has taken place is likely to give rise to a proportionately large capital spending upcycle as energy supply becomes increasingly scarce. In other words, it seems likely that the energy industry will not merely return to normal capital spending, but rather an era of catch-up spending after a decade of acute underspending. We also continue to believe that the extraordinary amount of retirement and scrapping that has taken place throughout the asset bases of oil and gas service companies during the industry depression is likely to render catch-up spending very challenging and create an environment in which the shrunken fleet of service assets—such as drilling rigs and supply vessels—become scarce and very dear.

However, if that thesis is correct, you wouldn't know it by looking at energy prices over the last three months. During the quarter, global oil prices declined by roughly $30 per barrel or about 26% (using Brent crude spot prices). This substantial move has been accompanied by downward movements of a number of other commodities in the face of growing global macroeconomic headwinds, along with the coordinated release of strategic petroleum reserves from several countries, though mostly the United States. This has provided some relief for consumers at the gasoline pump and mitigated business transportation costs, which is clearly the politically-intended effect as we approach mid-term elections in the United States. It appears these days that the "Strategic" in Strategic Petroleum Reserve may refer primarily to the U.S. petroleum reserve's strategic value during election cycles. Notwithstanding recent price movements, which have confounded many energy market experts steadfastly analyzing actual physical energy market data, we think the evidence fairly uniformly suggests an increasingly tight global oil market. Of course, we could be wrong but as Marty Whitman, our late firm founder, was fond of saying, "we are in the probabilities business."

First, global oil and gas consumption continues to grow. Proxy battles and public pressure have impacted the investment decisions of publicly traded companies but have had no discernible impact on the means by which the citizens of developing countries continue to raise their living standards. The International Energy Agency ("IEA") forecasts that global oil demand will grow in 2022 by almost 2 million barrels per day, a figure depressed by continuing COVID-related lockdowns in China and a partial recovery in jet fuel consumption, as compared to pre-COVID levels. The IEA expects that oil consumption will grow by another 2.1 million barrels per day in 2023. Of the 2.1 million barrel per day 2023 demand growth, roughly three quarters of that demand growth is expected to come from non-OECD nations. In order to grasp the drivers of that data, one merely has to appreciate that the bulk of the world's population, and even more so the bulk of the world's fastest growing populations, live in relatively low GDP per capita emerging economies. Meanwhile, OPEC forecasts 2022 consumption 600k barrels per day above the IEA forecast and 2023 consumption growth of 2.7 million barrels per day, taking 2023 consumption to 103 million barrels per day. In short, there does not appear to be significant evidence that global oil demand is poised to decline.

CHART 1: WORLD LIQUID FUELS CONSUMPTION



Source: www.eia.gov

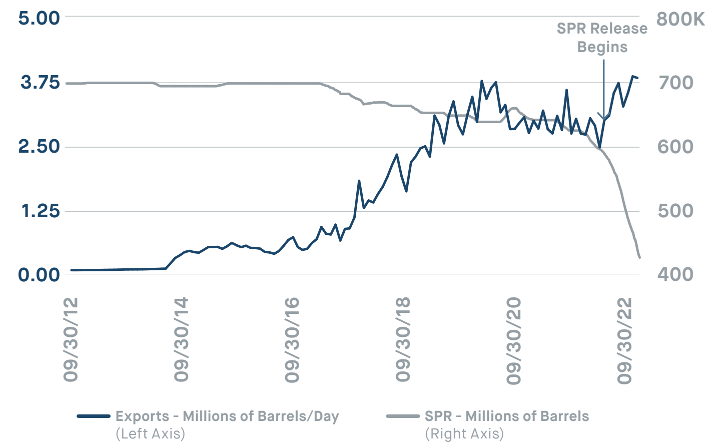
Further, recent oil price declines seem mostly related to anticipation of a global macroeconomic slowdown or recession. We would offer several thoughts related to oil and recessions. First, in recent decades, global oil consumption has frequently been impacted by significant macroeconomic recessions, including the Global Financial Crisis ("GFC"), which is captured in Chart 1 above. We think it is fair to describe most global oil consumption declines during the last fifty years as generally modest and relatively short-lived. During the GFC, unemployment in the largest economy in the world, the United States, peaked at nearly 10% and took almost a decade to return to pre-GFC levels. Meanwhile, world oil and liquid fuels consumption surpassed previous peak levels a little more than two years after the previous peak. In other words, while we don't know if a global recession will reduce global oil consumption, we don't see a lot of evidence that such an event would be anything other than temporary. Furthermore, we also perceive a fairly broad global recognition of growing energy shortages with rampant underinvestment as the primary cause. As it relates to a substantial recovery in oil and gas investment spending, we do not believe it is particularly important whether a barrel of crude is priced at $80 or $120. We think the economic incentives to produce at either price level, combined with the growing perception of energy shortages and energy insecurity, are likely sufficient to foster an accelerating investment recovery.

Furthermore, as it relates to the oil market pricing manipulation intended by the release of the U.S. Strategic Petroleum Reserves ("SPR"), we offer a few thoughts. Back in March, as Russia began its invasion of Ukraine, President Biden announced that 180 million barrels of oil would be released from the U.S. SPR. What follows below are the very first sentences of the actual White House press release:

"Americans face rising prices at the pump because of Putin's Price Hike. Since Putin accelerated his military build-up around Ukraine, gas prices have increased by nearly a dollar per gallon. Because of Putin's war of choice, less oil is getting to market, and the reduction in supply is raising prices at the pump for Americans."

Unfortunately, the announcement belies the reality that global oil inventories were substantially declining, as the world economically emerged from COVID (see Chart 3) well before Russia invaded Ukraine. The price of gasoline had also risen by roughly $1 per gallon in the twelve months prior to the Russian invasion and the price of crude in the U.S. (West Texas Intermediate spot price) had increased by nearly 50% over that period. More recently, during a mid-September interview on 60 Minutes, President Biden also expressed a belief that the U.S. oil industry was in a position to be part of a supply solution to high energy prices by saying "And then along came the industry saying they'd produce another million barrels a day by the spring. So, I think we're in relatively good shape." We don't think the data support that assertion. U.S. crude production has flatlined over the last several months at approximately 12 million barrels per day, roughly 1 million barrels per day below pre-COVID levels. We have seen no production increase in the U.S. since June. Since the March SPR release announcement, roughly 150 million of the 180 million barrels have been released and the program draws towards its end, unless it is extended. While the entire U.S. SPR itself has been reduced by more than a quarter since that announcement, to levels not seen in decades, it has been made obvious—for those weren't already intuitively aware—that, when you are a net exporter of a globally-traded commodity that is mostly fungible, putting excess supply into the market to depress prices will subsidize the pricing of the entire planet's consumption, not only that of your voting constituents, unless you are prepared to restrict exports. Lo and behold, we have seen an upward inflection of U.S. exports exactly coincident with the beginning of the SPR release (see Chart 2).

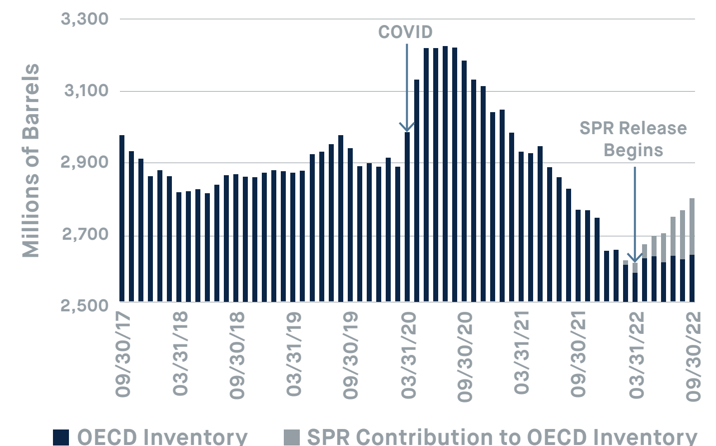
CHART 2: U.S. CRUDE EXPORTS & U.S. SPR INVENTORY



Source: www.eia.gov

Furthermore, in analyzing OECD oil inventory data, we can make a few broad observations. First, inventories were falling meaningfully worldwide before Russia invaded Ukraine. Second, the U.S. SPR release is almost exactly equivalent to the recent build of OECD commercial inventories (see Chart 3). In essence, the U.S. barrels are flowing into the commercial storage of other nations.

CHART 3: OECD CRUDE OIL & LIQUIDS INVENTORY



Source: www.eia.gov

In summary, absent the politically-motivated SPR release, we see supply and demand of global oil markets as fairly tightly balanced today but, looming on the horizon, we see continued consumption growth, the end of the SPR release, a recently announced substantial supply cut by OPEC, and more stringent

sanctions upon Russian oil coming into force at the turn of the year. Each development alone constitutes a meaningful source of supply risk. If the world wants a solution to the problem of increasing energy shortages and rising prices during the next decade or so, an acceleration of capital spending and a powerful investment spending cycle, to the benefit of oil and gas service companies, appears virtually unavoidable. Again, we could be wrong but "we are in the probabilities business."

QUARTERLY ACTIVITY

During the quarter ended September 30th, 2022, the Fund purchased shares of easyJet plc ("easyJet") and exited positions in Boskalis, Drilling Company of 1972 (also known as Maersk Drilling) and CK Asset Holdings. Both Boskalis and Maersk Drilling were the subject of takeover transactions. In the case of CK Asset, a combination of tax loss harvesting[8] and the perception of superior opportunities elsewhere led to the decision to sell.

As it relates to superior opportunities, during the most recent two quarters, the Fund has gone from not having a single position listed in the U.K. to having 9.2% of Fund capital invested in three London-listed companies at quarter end. During the first three quarters of 2022, the FTSE 100[9] declined modestly in British pounds, even with the strength of its unusually heavy weight towards energy producers, but declined by nearly 21% in U.S. dollars. Outside of the oil and gas producers, there are more than a few London-listed companies that are now trading below levels seen in the Global Financial Crisis, Brexit and COVID. While the U.K. macroeconomy and currency are indeed facing challenges, many London-listed businesses are quite global in nature. For example, S4 Capital plc generates approximately 70% of its revenue in the Americas, the vast majority of which is from the United States and denominated in U.S. dollars. Similarly, Ashmore Group plc's revenue is virtually all denominated in U.S. dollars while it's cash and securities holdings, totaling roughly 60% of its market cap, are denominated in several currencies including the U.S. dollar. In summary, the U.K. equity market has quickly become a meaningful portion of the Fund by weight and a substantial portion of our recent activity.

Furthermore, the Fund's one new purchase during the quarter was in the shares of easyJet plc ("easyJet"). easyJet is a low-cost airline focusing on point-to-point travel in Europe with its headquarters located in London's Luton Airport. The Fund previously held easyJet shares several years ago, which were acquired following a string of unfortunate incidents including terrorist attacks in Paris, Brussels, Turkey, and Egypt, each of which impacted demand for European leisure travel. European air travel was also substantially disrupted by an air traffic controller strike in France. With those operational challenges as the backdrop, Britain's 2016 "Brexit" vote to leave the European Union was highly unwelcomed. In the aftermath of Brexit, it was uncertain for some time whether existing air services and security agreements would be honored and, therefore, whether travel between the U.K. and Europe might be curtailed.

Today, easyJet stock trades at a lower price-to-tangible book[10] value than it did after that previous confluence of major headwinds. Similarly, today's share price rivals the price to tangible book multiple reached during the Global Financial Crisis, as well as at the nadir of the COVID-related panic in Spring 2020. easyJet also currently finds itself in the rare position of having its stock trade substantially below the estimated liquidation value of its owned aircraft fleet, net of all indebtedness.

A non-exhaustive list of headwinds facing the company presently includes the rising cost of jet fuel, an outsize portion of U.S. dollar-denominated costs relative to its British pound and euro-denominated revenues. Further, this summer suffered from an exceptional degree of air traffic disruption throughout the U.K and Western Europe as a result of airport congestion and staffing issues. A general fear of a protracted recession in the U.K. is not helping either. The stock price has declined roughly 47% year to date in British pounds and 56% in U.S. dollars. easyJet's strong balance sheet at the beginning of the COVID-19 pandemic, and its proactive approach to equity issuance throughout, has enabled the company to maintain the financial strength needed to navigate the current obstacles. The company still owns more than half of its fleet and carries net debt that is a fraction of its monetizable assets. We have paid a price that reflects a low multiple of operating profits that the company has achieved many times historically, in environments both good and bad. We believe the possibility for resource conversion at the company is also present, as the company was approached with, and rejected, a takeover offer as recently as last year.

Thank you for your confidence and trust. 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 September 30, 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: October 19, 2022

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 **MSCI World Value:** 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[11] to price, 12-month forward earnings to price[12] and dividend yield[13]. Source: MSCI.

3 Press Release https://thirdave.com/third-avenue-strengthens-focus-on-value-investing/.

4 **Correlation** - Correlation, in the finance and investment industries, is a statistic that measures the degree to which two securities move in relation to each other.

5 Third Avenue Value Fund Third Quarter 2017 Shareholder Letter.

6 The **MSCI World Growth Index** captures large and mid cap securities exhibiting overall growth style characteristics across 23 Developed Markets (DM) countries.

7 **Bloomberg Decile Disclosure:** For the 10-year period the Fund ranked in the 3rd decile among 300 Funds in the Bloomberg Foreign Value Funds Category as of 10/18/2022. Bloomberg Decile Rankings represent a fund's total return rank relative to all funds that have the same Bloomberg Category. The highest rank is 1 and the lowest is 10 based on the total number of funds ranked in the category. It is based on the Bloomberg total return, which includes both income and capital gains of losses and is not adjusted for sales charges or redemption fees. **Bloomberg Percentile Disclosure:** For the 1, 3, 5, and 10-year periods the Fund ranked in the following percentiles, among the Bloomberg Foreign Value Funds Category: 99th vs 487 Funds, 99th vs 446 Funds, 90th vs 421 Funds and 76th vs 300 Funds respectively as of 10/18/2022. The highest rank is 100 and the lowest is 1 based on the total number of funds ranked in the category. It is based on the Bloomberg total return, which includes both income and capital gains or losses and is not adjusted for sales charges or redemption fees. Percentile rank is a standardized way of ranking items within a peer group, in this case, funds with the same Bloomberg Category.

8 **Tax Loss Harvesting** - Tax-loss harvesting is the timely selling of securities at a loss in order to offset the amount of capital gains tax due on the sale of other securities at a profit.

9 The **FTSE 100** is comprised of the most highly capitalized blue-chip stocks listed on the London Stock Exchange.

10 **Price to tangible book value** (PTBV) measures a company's market value relative to its hard or tangible assets. Source: Investopedia.

11 **Book Value** - 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.

12 The **Forward Earnings to Price** - Forward price-to-earnings (forward P/E) is a version of the ratio of price-to-earnings (P/E) that uses forecasted earnings for the P/E calculation.

13 **Dividend Yield** - The dividend yield, expressed as a percentage, is a financial ratio (dividend/price) that shows how much a company pays out in dividends each year relative to its stock price.

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VALUE FUND

AS OF SEPTEMBER 30, 2022

INSTITUTIONAL: TAVFX | INVESTOR: TVFVX | Z: TAVZX

FUND PERFORMANCE

As of September 30, 2022

	3 mo	1 yr	3 yr	5 yr	10 yr	Inception	Inception Date
Third Ave Value Fund (Inst. Class)	-7.52%	-7.46%	11.65%	2.32%	5.46%	9.67%	11/1/1990
Third Ave Value Fund (Inv. Class)	-7.60%	-7.72%	11.37%	2.06%	5.19%	4.75%	12/31/2009
Third Ave Value Fund (Z Class)	-7.49%	-7.36%	11.76%	N/A	N/A	2.11%	3/1/2018

TOP TEN HOLDINGS

Allocations are subject to change without notice

	TAVFX
Bank of Ireland Group PLC	6.6%
Warrior Met Coal, Inc.	6.6%
Tidewater, Inc.	6.0%
Subsea 7, S.A.	4.8%
Bayerische Motoren Werke AG	4.5%
S4 Capital PLC	4.2%
Capstone Copper Corp.	4.2%
Jardine Cycle & Carriage Ltd.	3.6%
Deutsche Bank AG	3.6%
CK Hutchison Holdings, Ltd.	3.6%
Total	**47.7%**

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 1.22%, 1.47% and 1.16%, respectively, as of March 1, 2022.

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-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:

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