



Portfolio Manager Commentary

VALUE FUND



Matthew Fine, CFA

*Joined Third Avenue in 2000
23 yrs investment experience*

Dear Fellow Shareholders,

For the three months ended December 31st, 2023, the Third Avenue Value Fund (the “Fund”) returned 9.26%, as compared to the MSCI World Index¹, which returned 11.53%. For further comparison, the MSCI World Value Index² returned 9.48% during the quarter. This quarter’s performance brings the Fund’s year-to-date return to 20.16%, which trailed the 24.42% performance of the MSCI World Index but exceeded the 12.41% performance of the MSCI World Value Index.

The Good, The Bad & The Ugly

During 2023, the mix of positions contributing to Fund performance evolved somewhat from prior years. Several long-held natural resource-related positions, such as Warrior Met Coal, Tidewater, and Capstone Copper, continued to provide important positive contributions to Fund performance, as did several long-held continental European holdings, such as BMW, Buzzi, and Deutsche Bank. However, several holdings purchased more recently during 2022, also made significant positive contributions to Fund performance during 2023. Specifically, easyJet, a U.K.-based low-cost leisure airline, and Ultrapar, a Brazilian retail and commercial fuel distribution and storage business, both provided important performance contributions during the year. Meanwhile, Japanese gas flow control and measurement company HORIBA, an investment we initiated just a few quarters ago, also performed very well throughout the second

half of the year providing a meaningful contribution. Senior research analyst, Ryan Korby, deserves the praise for identification and analysis of the opportunity in the shares of HORIBA.

However, the other side of the ledger, where the poor performers reside, was dominated by our investment in S4 Capital, a digital advertising and media company. Our investment in S4 began in 2022 as a contrarian opportunity in a company with several self-inflicted, but resolvable, wounds. It has since evolved into an investment in a company facing the first significant digital advertising downturn since the company’s founding in 2018. The company, which remains in the process of restoring the fullness of its reputation with investors, while now simultaneously facing industry headwinds, has reached valuations we view as confusingly low. We do not view the company to be permanently impaired and, frankly speaking, the severity of cyclical headwinds facing the digital advertising industry today are actually quite mild, in comparison to many other cyclical industries in which we have experience. We are also generally pleased with management’s seriousness of purpose in remedying previous operational shortcomings. Our reaction has been to continue to add to our holdings of S4. We would also note that, as contrarian value investors, we are accustomed to investing in companies, industries, and countries with dark clouds hovering above them at the time of investment, only to see those clouds darken further before finally dissipating. In fact, that pattern describes a number of our most successful long-term investments. We remain optimistic that S4 may one day be described in such a way.

Rates, Ruses & Regime Changes – Revisited

In early 2023, our team published a whitepaper titled [Rates, Ruses & Regime Changes](#). It was, in essence, our answer to the question of whether value strategies needed higher interest rates to outperform.

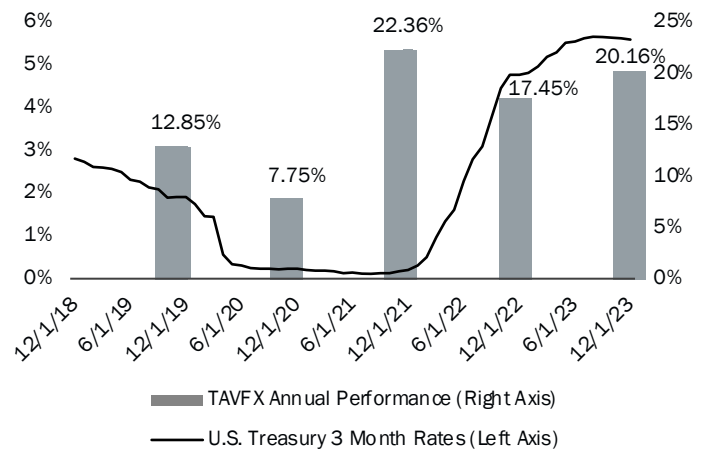
Performance is shown for the Third Avenue Value Fund (Institutional Class). Past performance is no guarantee of future results; returns include reinvestment of all distributions. The above represents past performance and current performance may be lower or higher than performance quoted above. Investment 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.



We argued strongly against the conventional wisdom of the day - that low interest rates favor growth investing strategies - and found little, if any, support for such a notion from decades of financial market history. We argued that the observable correlation between low or falling interest rates and growth investing supremacy was a recent development and one without obvious historical precedent. We also argued there was likely an element of self-fulfilling prophecy at work in the perpetuation of that correlation, a phenomenon that occurs frequently in financial markets. For all of these reasons and several others, we concluded that one should not rely heavily on the persistence of such a correlation. After all, the first rule in statistics is not to mistake correlation for causality and financial markets offer a long history of correlations breaking down at unpredictable times in unanticipated ways.

As early 2023 progressed, U.S. interest rates continued to rise, and yet the unabashedly growth-oriented NASDAQ 100 Index³ completed its strongest year of performance since 1999 - the peak year in one of history's most famous tech bubbles - exhibiting huge outperformance relative to broader indices. While that may seem encouraging to some, the occurrence of rampant growth stock supremacy, in concert with rising interest rates, weakens the "low rates are good for growth" narrative. The death of that correlation, and erroneously perceived causal relationship, would leave U.S. equity markets replete with many very expensive stocks without a great supporting story, in our view. Indeed, from a top-down quantitative perspective, there are some early signs that the correlation between low rates and growth strategies seen in recent years did begin to weaken observably in 2023. Over longer historical periods, there is scant evidence of any correlation whatsoever, so a shrinking correlation looks, to us, like nothing more than a potential normalization or a vanishing anomaly. Naturally, we have fielded many questions about the relationship between interest rates and value investing as a strategy in recent years. All of that consideration and investigation led us to the conclusion that there isn't an obvious consistent or predictable relationship over time. It's simply not a consideration we would recommend one use in determining an equity allocation. Lastly, and most germane to what we actually do as a team of fundamental value investors, during the last few years, in a rapidly changing interest rate environment, we have seen no discernable relationship whatsoever between the Fund's absolute returns and U.S. interest rates, which declined for three of the five years and then rose sharply for two.

TAVFX ANNUAL PERFORMANCE VS 3-MONTH SOFR*



*Secured Overnight Financing Rate

In conclusion, with the benefit of a few more data points during a rapidly shifting interest rate environment, we land exactly where we did when we published *Rates, Ruses & Regime Changes* almost one year ago; even if you are in a position to accurately predict the future level of interest rates - and very few people seem to be in that position - it does not necessarily confer any ability whatsoever to predict which type of equity investing style might prevail over that time horizon. Over time, correlations strengthen, weaken, and reverse in unpredictable ways. Sound and time-tested investment strategies should be favored and given time to perform rather than traded based on macroeconomic forecasts. We continue to believe that there are far more reliable things with which to concern ourselves, such as the price we pay for a security relative to the fundamental economic returns offered by the business that issued the security.

Banks, Rates & Value

"Too much of a good thing can be wonderful."

- Mae West

Apparently, Ms. West never ran a bank. For many financial firms, interest rates are a lot like medicine in that the proper dosage can be salubrious, while too much of the same medicine can prove fatal. Similarly, the way interest rates impact the health of industries and companies can shift meaningfully over time. There are few better examples of this principle than the U.S. regional bank sector and Comerica, in particular.



Comerica, a long-time Fund holding, is an unusual super-regional bank due to the extent of corporate exposure in its loan book, as compared to many other U.S. regional banks with much larger exposures to residential mortgages. Because much of this corporate lending is done on a floating-rate basis, Comerica's asset yields respond unusually rapidly to interest rate movements. As interest rates rose over the last few years, Comerica's asset yields did indeed rise sharply as well, a very positive development. In this way, Comerica, along with many U.S. regional banks, were rightly perceived as beneficiaries of U.S. interest rates rising from historically low levels. Something similar can be said of our European banking investments where Bank of Ireland and Deutsche Bank have also been aided by rising European rates. However, higher rates were helpful for most U.S. regional banks, until they weren't. By early 2023, rates had risen high enough, and rapidly enough, to expose a lot of duration risk (the risk associated with the value of longer-dated bonds bearing higher sensitivity to interest rate movements than shorter-dated bonds) present within the huge fixed-income portfolios comprising large portions of many regional bank balance sheets. Ultimately, accelerating deposit withdrawals at a few banks caused high-profile manifestations of this risk, leading to a couple of bank insolvencies, heightened fear, more withdrawals, and a spiral which had to be arrested by the U.S. Federal Reserve, Treasury and FDIC. U.S. regional bank stocks were punished severely during the first half of the year.

Through this still-evolving U.S. banking landscape, we can see a real-life example of how an industry's relationship with a vital fundamental factor, such as interest rates, can shift and even reverse over time. Higher interest rates were at one point seen as a panacea for underearning banks and only a short while later were seen as potentially fatal for the same group of banks. To add yet one more layer of complexity for consideration, because European banks were not flooded with deposits during COVID to the same extent as their U.S. regional counterparts, and because of the way mark-to-market movements of bank assets are treated in Europe, European banks have, to date, generally experienced the benefit of higher rates without the trauma that U.S. regional banks experienced afterwards. Because even a single bank can have a rapidly evolving relationship with interest rates, and because various banks in various jurisdictions have idiosyncratic aspects that govern their relationships with interest rates, it is very dangerous to assume a fixed and lasting generalized relationship, such as an enduring positive correlation between the level of interest rates and bank performance.

In the heat of the Spring 2023 panic, we disclosed that we had added to our holdings of Comerica and discussed our thinking related to regional banks more generally. Since that time, deposit flight has broadly come under control and the stocks of many U.S. regional banks, Comerica included, have staged strong recoveries, albeit only partially so. One very valid explanation for the partial nature of the recovery is that there are no free lunches in banking. It is indeed attractive for banks to lend at higher rates, but higher borrowing costs raise the debt service burden on borrowers, make refinancing loans at maturity more difficult, and may also increase the probability of macroeconomic slowdown, all of which raise the probability of higher non-performing loans, defaults, and loan losses. So, while it may appear that most of Comerica's loans, as well as those of the leveraged loan market and the private credit market, may be protected from duration risk by their floating-rate nature, they are often just trading duration risk for credit risk. In other words, a leveraged loan might produce higher income as the loan's reference rate resets higher but, in the process, what was originally a BBB credit risk may have turned into a CCC credit risk as the borrower's interest burden climbs and ability to refinance at maturity becomes more tenuous. No free lunches. Interestingly, as the expectation of stabilizing, and eventually declining, U.S. interest rates took hold in the second half of 2023, U.S. regional bank stocks did stage a very strong recovery. For the record, despite a deeply challenging twelve-month period, Comerica ended 2023 having made a positive contribution to Fund performance, primarily due to our Spring purchases and subsequent second-half gains.

Finally, it is plain to see that the influence of interest rates on the U.S. regional bank industry has evolved dramatically in a short period of time. It is very plausible that, from this point, the U.S. regional bank industry could be a significant beneficiary of somewhat lower interest rates. From a fundamental perspective, lower U.S. interest would likely alleviate incentives for bank deposits to seek higher yields elsewhere, reduce existing mark-to-market losses on bond portfolios held on bank balance sheets, and reduce some of the concerns around rising credit losses and macroeconomic slowdown. It will not be lost on many readers that banks, and financials more broadly, comprise a disproportionately large weight within many value-oriented indices. It is conceivable that lower interest rates may, at some point, become a tailwind for value strategies broadly, which would represent the mirror image of the prevailing wisdom in recent years.



A Value Vignette

On an optimistic note, notwithstanding our earlier derisory comment about the U.S. equity market being “replete with many very expensive stocks,” it appears to us that a considerable amount of attractive value remains within global equity markets today. The Fund, for its part, carried a weighted average price to earnings⁴ ratio of approximately 8.2x, as of year-end. Importantly, it is our view that we have been able to position the Fund with this level of cheapness without relaxing other very important criteria, such as balance sheet strength, liquidity, or risk of secular decline. Our ability to accomplish this feat has been enabled, in part, by a broad-based growth and technology stock obsession in recent years, which has left some very attractive businesses orphaned and inexpensive. As we have discussed ad nauseum in recent years, not only have cheap stocks not experienced the valuation multiple expansion enjoyed by expensive stocks, and by U.S. equity indices by extension, but many cheap stocks became even cheaper in recent years. We offer a few high points regarding our investment in BMW AG, certainly among the most well-known companies held in the Fund today, as illustration of attractive, well-financed value:

During the five years through year end 2023, BMW AG common stock produced an annualized total shareholder return of 12.8% in U.S. dollar terms (13.6% in EUR terms). While it doesn't rival the return of Magnificent Seven constituent Tesla, it does rival the return of the MSCI World Index during a very good run of index returns. Meanwhile, over the last 30 years, BMW AG shares have produced a total shareholder return of 10.6% in USD terms, substantially higher than the MSCI World Index return. In other words, it has been a pretty good business, producing pretty attractive returns over a long period of time. In more recent periods, returns have been generated by both stock price appreciation and significant dividend payments. At present, the stock offers a dividend yield⁵ of approximately 8.4% per year, based on the 2023 dividend distribution. However, what is particularly interesting about the last five years is that the attractive annualized returns have been accomplished in spite of the headwind of the previously mentioned valuation multiple decline. At year end 2018, BMW was trading at 6.5x analysts' estimates of forward earnings, (according to CapIQ), but by the end of 2023, that very low valuation multiple had fallen even lower to 6.1x forward earnings. Both multiples are substantially below the valuation multiples assigned to the company in earlier periods. This experience is a microcosm of the modest derating of cheap stocks we continue to highlight as having occurred in the background of markedly increasing valuations of broad global equity indices. In related numbers,

BMW common stock is currently trading at roughly 73% of book value⁶ while having generated a 12.7% return on equity over the trailing twelve months. As for the financial position, BMW is almost indisputably extremely well-financed with well more than EUR 20 billion of excess cash, amounting to about one-third of its market cap. In 2022, BMW approved a EUR 2 billion buyback, which was followed up with another EUR 2 billion buyback one year later. And, as a result of the very impressive levels of operational cash flow⁷, the company's cash balances have only continued to grow, even while investing for an electric vehicle transition, making multi-billion-euro dividend payments, and executing multi-billion-euro buybacks.

Finally, what about the secular decline risk as a result of the electric vehicle revolution? After all, we were told that Tesla is going to eat the world, a mantra which now seems in need of revision to include BYD. In the interest of brevity, we offer only a few points. We have believed for some time that BMW, as an extremely well-financed engineering powerhouse, wielding one of the world's most valuable brands, was likely to remain highly competitive, independent of the pace of electric vehicle adoption. However, we have also believed that the pace and ultimate level of adoption remain highly uncertain. Recent data on electric vehicle sales volumes in both the U.S. and Europe, as well as growing dealer inventory levels, suggest slowing sales growth and high dependency upon large purchase subsidies. Whether governments continue to heavily subsidize electric vehicle purchases and whether consumers appetite for very expensive cars persists undented in a higher interest rate environment remains uncertain. All of that said, it remains quite surprising to us how little attention is given to the fact that BMW, as well as Mercedes-Benz for that matter, have both been growing battery electric vehicle volumes materially faster than Tesla in recent quarters. With all of that taken into consideration, it becomes very hard to understand a valuation multiple of 6.1x earnings. We promised brevity so we will save the analysis of what a BMW valuation looks like when one includes the value of its excess cash and a theoretical stand-alone value for its ownership of Rolls-Royce.

Quarterly Activity

During the quarter ending December 31st, 2023, the Fund initiated a position in Bolsa Mexicana de Valores, S.A.B. de C.V. (“Bolsa Mexicana”) and exited positions in Hutchison Port Holdings Ltd and Ashmore Group plc. The Fund also exited holdings of SPDR S&P 500 ETF Trust put options, which have been employed periodically in recent years because they have, from time to time, been unusually inexpensive to purchase and tend to behave as something of an insurance policy against U.S. equity market declines, a risk



we view as elevated of late. The Fund's exits from Hutchison Port Holdings and Ashmore Group were, in both cases, a response to a lack of progress having been made towards various aspects of our investment theses.

Bolsa Mexicana is an exchange operator, most notably of the Mexican Stock Exchange and Mexican Derivatives Exchange, while also providing related custody, clearing, settlement, and data services. Many of Bolsa Mexicana's fee-generating activities have stagnated in sympathy with Mexican capital market activity, creating a low bar for improved operating performance. Very few equity listings have taken place in Mexico over the past several years and the ratio of domestic market cap to GDP, as well as trading activity, lags that of many peer countries. However, a variety of federal legislative efforts are currently advancing to enhance the attractiveness of Mexican capital markets to issuers and investors, and support initial public offerings, debt issuance, and trading activity.

While its trading and clearing businesses may be front-of-mind when someone thinks of Bolsa Mexicana, two other areas also have significant influence on the company's top and bottom lines. In fact, the single largest portion of company revenue derives from its operation of the central security depository ("CSD"). Through this line of business, Bolsa Mexicana is by far the largest provider of securities custody services in Mexico, a highly profitable business with operating margins greater than 70% over the past several

years and assets under custody continuing to march higher over the past decade. In addition to the CSD, Bolsa Mexicana also has a fast-growing information services unit which produces indices through an alliance with Standard & Poor's, as well as other market data and risk management products.

The company maintains a very strong net cash balance sheet and the nature of the business entails relatively low capital expenditure and regulatory capital requirements. Bolsa Mexicana's strong financial position has enabled the company to return a high percentage of its operating cash flow to shareholders in the form of dividends and, in recent years, share repurchases. Bolsa Mexicana also appears inexpensive in an absolute sense as well as undervalued relative to publicly-traded peers and historical merger and acquisition transactions in the industry.

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

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: January 19, 2024

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. Source: MSCI.

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 to price, 12-month forward earnings to price and dividend yield. Source: MSCI

³ The Nasdaq 100 Index is a collection of the 100 largest, most actively traded companies listed on the Nasdaq stock exchange. Source: Nasdaq

⁴ The price-to-earnings ratio is the ratio for valuing a company that measures its current share price relative to its earnings per share (EPS). The price-to-earnings ratio is also sometimes known as the price multiple or the earnings multiple. Source: Investopedia

⁵ 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. Source: Investopedia

⁷ Book value is the sum of the amounts of all the line items in the shareholders' equity section on a company's balance sheet. Source: Investopedia

⁷ Cash Flow: Cash flow is the net cash and cash equivalents transferred in and out of a company. Cash received represents inflows, while money spent represents outflows.



FUND PERFORMANCE

	3Mo	1Yr	Annualized			Inception	Inception Date
			3Yr	5Yr	10Yr		
Third Ave Value Fund (Inst. Class)	9.26%	20.16%	19.98%	16.00%	7.54%	10.68%	11/1/1990
Third Ave Value Fund (Inv. Class)	9.19%	19.85%	19.66%	15.70%	7.26%	7.45%	12/31/2009
Third Ave Value Fund (Z Class)	9.28%	20.27%	20.09%	16.11%	N/A	9.22%	3/1/2018

TOP TEN HOLDINGS

Warrior Met Coal Inc.	6.8%	Deutsche Bank AG	4.0%
Capstone Copper Corp.	4.9%	Easyjet PLC	3.9%
Tidewater Inc.	4.7%	Subsea 7 SA	3.5%
Ultrapar Participacoes S.A.	4.5%	Bank Of Ireland Group PLC	3.4%
Bayerische Motoren Werke AG	4.1%	Valaris Ltd.	3.3%
		TOTAL	43.1%

Allocations are subject to change without notice

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, 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, and adverse general market conditions.

The fund's investment objectives, risks, charges, and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling 800-443-1021 or visiting www.thirdave.com. Read it carefully before investing.

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 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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