

## **Third Avenue Management LLC**

**622 Third Avenue  
New York, NY 10017**

**Telephone: 212-888-5222**

**Facsimile: 212-888-6757**

**[www.thirdave.com](http://www.thirdave.com)**

**03/30/2012**

### **FORM ADV PART 2A BROCHURE**

**This Brochure provides information about the qualifications and business practices of Third Avenue Management LLC. If you have any questions about the contents of this Brochure, please contact us at 212-888-5222 or [clientservice@thirdave.com](mailto:clientservice@thirdave.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.**

**Additional information about Third Avenue Management LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Third Avenue Management LLC is an investment adviser registered with the SEC. Registration with the SEC does not imply a certain level of skill or training.**

## **Item 2 – Material Changes**

This Brochure has been updated from the previous version, dated March 31, 2011, and includes the following material changes:

- Additional risk disclosure has been included in Item 8, Methods of Analysis, Investment Strategies and Risk of Loss
- Item 10, Other Financial Activities and Affiliations: FFT Wealth Management LLC is no longer an affiliate of Third Avenue Management LLC.
- Third Avenue Management LLC has decreased the frequency with which it will execute trades on behalf of its clients utilizing its affiliated broker dealer, M.J. Whitman LLC. A further description of this change can be found in Item 10, Other Financial Activities and Affiliations.
- Disclosure of the use of “commission sharing arrangements” has been added to item 12, Brokerage Practices.
- Disclosure regarding the execution of foreign exchange transactions has been added to item 12, Brokerage Practices

This list includes only material changes from the previous version of the Brochure.

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#### **Item 4 – Advisory Business**

Third Avenue Management LLC (“TAM”) provides investment management services to clients on a discretionary basis. All clients choosing the same investment mandate offered by TAM typically will be invested in substantially the same securities, in substantially the same proportion. Prospective clients that indicate the intention to invest an amount in excess of a certain percentage of their overall net worth, or that indicate a risk tolerance that is not consistent with the potential level of risk inherent in a TAM portfolio, will in most cases not be suitable as clients. Since advisory services are not tailored for individual client circumstances, TAM can accommodate investment restrictions only to a limited extent, subject to certain limitations and approval by TAM.

Products offered by TAM include: mutual funds, UCITS, private funds, sub-advised funds and separate accounts. Certain accounts are managed on a “wrap fee” basis where the client pays a single fee for advisory services and transaction costs, and TAM receives a portion of that overall fee in compensation for the services TAM provides.

TAM specializes in value investing. TAM’s value investing strategy seeks to identify securities of well financed companies (meaning companies with high quality assets and a relative absence of liabilities) selling at a price significantly discounted to TAM’s conservative estimate of intrinsic value. However, TAM may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that TAM considers appropriate, subject to each client’s agreement with TAM or other agreed-upon restrictions.

TAM is an indirect, majority-owned subsidiary of Affiliated Managers Group, Inc. (“AMG”). TAM has been providing investment advisory services since 1986. TAM managed on a discretionary basis approximately \$11,378,528,589 of client assets as of December 31, 2011.

#### **Item 5 – Fees and Compensation**

Clients pay advisory fees calculated based on a percentage of assets under management, and in some cases, may also pay performance fees. Advisory fees charged by TAM depend on (i) level of servicing, (ii) investment objective and investment strategy, (iii) account size, (iv) type of investment securities, (v) additional portfolios under management, (vi) terms of the agreement, and (vii) other factors. Actual fees, minimum fees and minimum account sizes may be negotiated and may vary among clients. Fees for special arrangements with specific clients to provide unique services may not be within the ranges described below.

*Registered Investment Company and other Fund Accounts.* Fees are payable monthly in arrears and are based on the average daily value of the net assets of the fund. TAM currently advises or sub-advises several such accounts. The fee arrangements for such funds are generally described in the funds’ prospectuses or other offering documents. The annual fee for US registered funds advised by TAM are set forth in their public filings

and range from 0.75% to 1.25%. The annual fee for other registered funds advised or sub-advised by TAM range from 0.40% to 1.00%. Fees may be subject to breakpoints as negotiated by each client, and may include a commitment to waive fees or reimburse a fund's expenses where expenses exceed certain predetermined thresholds.

*Separate Accounts.* Fees for separate accounts are individually negotiated. Depending on the circumstances, fees are payable quarterly in arrears or in advance and are based on account value. If a client that has paid fees in advance properly terminates its account other than as of the last day of a quarter, TAM will remit to the client an amount equal to the pro rata portion of the fees paid in advance, based on the actual number of days remaining in the quarter.

Clients may arrange to have their fees debited directly from their account subject to applicable regulatory requirements. The annual fee rates for new separate accounts range between 1.00% and 1.50%, subject to negotiation and depending on the factors described above. Such fees may include certain administrative services.

*Private Funds.* Fees for private funds are payable monthly in advance and are based on the partner's or member's capital balance or net assets of the fund as of the beginning of the month. The fees range between 1.00% and 2.00% annually, are subject to negotiation and depend on the nature and size of the mandate. The funds also are generally subject to an incentive fee or allocation equal to 20% of fund profits subject to high water marks. Incentive fees, if applicable, are paid annually in arrears. Private fund fees are described in detail in each fund's offering documents.

*MJW Private Client Services Program.* Clients may establish a relationship with TAM through its affiliated broker-dealer, M.J. Whitman LLC, ("MJW"), which offers brokerage, custodial, and advisory services for a single fee ("wrap fee"), based on a percentage of assets under management. Depending on the circumstances, fees are payable quarterly in arrears or in advance and are based on account value. Total annual fees charged to wrap program clients by MJW may be up to 2.0% of assets under management per year. A client may be able to obtain some or all of the services available for a wrap fee on an unbundled basis. Depending on the circumstances, the aggregate of any separately paid fees may be lower or higher than the wrap fee.

*Additional Costs.* In addition to paying an advisory fee, clients will pay brokerage commissions, mark-ups, mark-downs, dealer spreads and/or other commission equivalents, foreign currency exchange costs, custodian fees, and regulatory charges and other expenses related to transactions effected for their accounts, except where such expenses are specifically covered pursuant to a wrap agreement. TAM may utilize its affiliates MJW or Private Debt LLC ("PD") to execute transactions in client accounts, generally only when directed to do so, and TAM's advisory fees are not reduced by the amount of commissions paid to MJW or PD.

All expenses relating to wrap accounts sponsored by MJW including, but not limited to, any costs of safekeeping, transport, acquisition and disposition fees related to Section 31 of the Securities Exchange Act of 1934 (Securities and Exchange Commission ("SEC"))

fees), custody fees (if applicable), and margin costs, but excluding brokerage commissions and other execution costs (such as foreign exchange fees or taxes which shall be paid by TAM), shall be for the account of and paid by the client. Fees and expenses relating to wrap accounts sponsored by a broker/dealer other than MJW are subject to agreement between the client and the sponsor. TAM's brokerage practices are described below under "Item 12 – Brokerage Practices." Fund clients bear other expenses as described in their offering documents. To the extent assets in a separate account are invested in a fund, such investment bears the expenses of the fund (including advisory fees) in addition to the advisory fees paid to TAM.

#### **Item 6 – Performance-Based Fees and Side-by-Side Management**

The portfolio managers for the following performance-based fee funds also manage non-performance based fee accounts: Third Avenue Global Value Fund, Third Avenue Real Estate Opportunities Fund, and Third Avenue Emerging Markets Fund. Although the performance-based fee funds do not have the same investment strategy as any other accounts currently managed by TAM, a conflict of interest may exist with regards to a portfolio manager favoring a performance-based fee fund over an account that pays another type of fee with regards to trading and allocation of investment opportunities. In order to monitor this conflict, TAM has adopted compliance policies and procedures for trading and allocations, and the TAM Compliance Department performs periodic review of trades and allocations in order to attempt to detect any inappropriate trading or allocations.

*Performance-Based Compensation.* Performance-based compensation may apply and is subject to federal and in some cases, local law, and is also negotiable. A client paying a performance fee should be aware that this type of fee arrangement potentially creates conflicts of interest and that:

1. it may provide an incentive for TAM to make investments that are riskier or more speculative than would be the case in the absence of a performance fee;
2. the fee arrangement may not have been subject to negotiation;
3. similar services may be available from other investment managers for lower compensation;
4. TAM may receive increased compensation with regard to unrealized appreciation as well as realized gains in the client's account;
5. the periods used to measure the performance will be specified in the contract or offering documents and will typically be at least a twelve-month period;
6. securities held in the client's account for which no market quotations are readily available will typically be valued either by the client's custodian or TAM based on available information. TAM may have a conflict of interest in performing such valuations.

## **Item 7 – Types of Clients**

TAM's clients include registered and unregistered investment companies, private funds, offshore funds, individuals, corporations, pension plans, trusts, estates, educational institutions, endowments and foundations. TAM also provides investment management services to clients of its affiliated broker-dealer MJW through its wrap program, MJW Private Client Services Program.

*Account Minimums.* TAM generally requires a minimum investment between \$5 million and \$25 million, depending upon the investment strategy, for individual and institutional advisory separate accounts. TAM reserves the right to decline any potential client for any reason or to accept accounts below the minimum investment. Funds advised by TAM have investment minimums and requirements as described in their offering documents.

## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

The descriptions set forth in this Brochure of specific strategies and investments should not be deemed to limit TAM's investment activities. TAM may engage in any investment strategy and make any investment, including any not described in this Brochure, that TAM considers appropriate, subject to each client's agreement with TAM or, for funds which TAM advises, the funds' offering documents. Fund offering documents contain additional specific information about investments and risks and should be read prior to making an investment. Investments are speculative and may entail substantial risks. There can be no assurance that the investment objectives of any client will be achieved, and clients should be prepared to bear a substantial loss on their investment.

TAM uses fundamental analysis to identify securities for investment. TAM acquires information about such securities from various sources, including: inspections of corporate activities, research materials prepared by others, financial publications, corporate rating services, filings with the SEC, foreign regulatory filings, press releases and TAM's network of corporate contacts.

TAM generally employs a long-term investment strategy with a time horizon greater than one year. However, TAM may sell a security in less than one year if deemed prudent by a portfolio manager.

The following is a description of the material risks of the potential types of investments in which TAM may invest client assets. Investments made depend on the investment mandate chosen by the client, and not all types of investments described below apply for all clients.

*Credit and Interest Rate Risk.* The market value of debt securities is affected by changes in prevailing interest rates and the perceived credit quality of the issuer. When prevailing interest rates fall or perceived credit quality improves, the market value of the affected debt securities generally rises. Conversely, when interest rates rise or perceived credit

quality weakens, the market value of the affected debt securities generally declines. The magnitude of these fluctuations will be greater when the maturity of the debt securities is longer.

*Currency Risk.* Investments are denominated in or tied to the currencies of the countries in which they are primarily traded. Because TAM may determine not to hedge its foreign currency exposure, the U.S. Dollar value of investments may be harmed by declines in the value of foreign currencies in relation to the U.S. Dollar. This may occur even if the value of the investment in the currency's home country has not declined.

*Foreign Securities and Emerging Markets Risk.* Foreign securities from a particular country or region may be subject to currency fluctuations and controls or adverse political, social, economic or other developments that are unique to that particular country or region. Therefore, the prices of foreign securities in particular countries or regions may, at times, move in a different direction from those of U.S. securities. From time to time, foreign capital markets may exhibit more volatility than those in the U.S., and the securities markets of emerging market countries can be extremely volatile. Emerging market countries can generally have economic structures that are less diverse and mature, and political systems that are less stable, than those of developed countries.

*High-Yield and Distressed Risk.* Investments in high-yield and distressed securities (commonly known as "junk bonds" or junk debt") may expose investors to greater risks than if they only owned higher-grade securities. The value of high-yield, lower quality securities is affected by the creditworthiness of the issuers of the securities and by general economic and specific industry conditions. Issuers of high-yield securities are not as strong financially as those with higher credit ratings, so the securities are usually considered speculative investments. These issuers are more vulnerable to financial setbacks and recession than are more creditworthy issuers, which may impair their ability to make interest and principal payments. TAM may also invest in distressed securities, which it considers to be issued by companies that are, or might be, involved in reorganizations or financial restructurings, either out of court or in bankruptcy. Investments in distressed securities typically may involve the purchase of high-yield bonds, bank debt or other indebtedness of such companies.

*Market Risk.* Prices of securities have historically fluctuated. Investors could therefore lose money.

*Focus and Non-Diversification Risk.* TAM client accounts may focus their investments in a relatively concentrated manner. A concentrated account can be more volatile than a diversified account, and volatility may be expected to increase when an account makes significant investments in a single issuer or issuers within a particular industry or geographic region because the account is more susceptible to adverse effects from such issuer or issuers.

*Small-Cap and Mid-Cap Risk.* TAM may invest from time to time in smaller and midsize companies. The securities of such issuers tend to be more volatile and less liquid than



those of larger companies. This can adversely affect the prices at which TAM can purchase and sell these securities.

*Liquidity Risk.* Liquidity risk exists when particular investments are difficult to sell. TAM may not be able to sell these investments at the best prices. Investments in private debt instruments, restricted securities, and securities having substantial market and/or credit risk may involve greater liquidity risk.

*Style Risk.* TAM frequently identifies opportunities in industries that appear to be temporarily depressed. The prices of securities in these industries may tend to go down more than those of companies in other industries.

*Use of Leverage.* The use of leverage may expose TAM client accounts to additional levels of risk, including (i) greater losses from investments than would otherwise have been the case had leverage not been used to make the investment, (ii) margin calls or interim margin requirements which may force premature liquidations of investment positions and (iii) losses on investments where the investment fails to earn a return that equals or exceeds the cost of borrowing such funds.

*Hedging Transactions.* Certain financial instruments such as derivatives, options, interest rate swaps, caps and floors, futures and forward contracts may be utilized for risk management purposes. There can be no assurances that a particular hedge is appropriate, or that a certain risk is measured properly. Further, while a hedging transaction seeks to reduce risk, such transactions may result in poorer overall performance and increased (rather than reduced) risk than if the hedging transaction had not been employed. Moreover, certain risks cannot be hedged, such as credit risk (relating both to particular securities and counterparties). In addition, TAM may choose not to enter into hedging transactions with respect to some or all of its positions.

*Counterparty and Settlement Risk.* To the extent that investments are made in swaps, derivative or synthetic instruments, repurchase agreements or other over-the-counter transactions or, in certain circumstances, non-U.S. securities, a credit risk may be encountered with regard to trade counterparties and settlement default. These risks may differ materially from those entailed in exchange traded transactions that generally are backed by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries.

*Environmental Liabilities.* Substantial risk of loss may be encountered from environmental claims arising from investments made with undisclosed or unknown environmental problems or with inadequate reserves, as well as from occupational safety issues and concerns.

*Derivatives.* Derivative instruments, or “derivatives,” include futures, options, swaps, structured securities and other instruments and contracts that are derived from or the value of one or more underlying securities, financial benchmarks, currencies or indices. Derivatives allow an investor to hedge or speculate upon the price movements of a

particular security, financial benchmark, currency or index at a fraction of the cost of investing in the underlying asset. The value of a derivative depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives of such asset. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives are “leveraged,” and thus provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement can not only result in the loss of the entire position, but may also expose investors to the possibility of a loss exceeding the original amount invested. Derivatives may also expose investors to liquidity risk, as there may not be a liquid market within which to close or dispose of outstanding derivatives contracts.

*Special Situations.* Certain Funds managed by TAM may invest in Special Situations Companies. This generally involves investments in companies involved in “event-driven” special situations such as bankruptcy filings in the U.S. and abroad, recapitalizations, spin-offs, corporate and financial restructurings, litigation or other liability impairments, turnarounds, management changes, consolidating industries and other catalyst-oriented situations. TAM believes these types of investments sometimes have limited downside risk relative to their current valuations. TAM could, however, be wrong in its assessment that these types of investments have limited downside risk, thus resulting in significant

*Insolvency and Bankruptcy Risk.* Investments in obligations of stressed, distressed and bankrupt issuers, including debt obligations that are in default, generally trade significantly below par and are considered speculative. There is even a potential risk of loss of the entire investment in such securities. There are a number of significant risks inherent in the bankruptcy process. A bankruptcy filing by an issuer may adversely and permanently affect the market position and operations of the issuer. TAM, on behalf of our clients, may also participate on committees formed by creditors to negotiate with debtors with respect to restructuring issues. There can be no assurance that TAM’s participation would yield favorable results, and such participation may subject TAM’s clients to additional duties, liabilities and trading restrictions in a particular investment.

*Commodities Risk.* Prices of commodities such as timber and oil have historically been very volatile. Reductions in commodity prices will likely cause the prices of the securities of companies holding real estate affected by those industries to decline.

*Real Estate Risk.* In addition to general market conditions, the value of certain investments will be affected by the strength of the real estate markets. Factors that could affect the value of these holdings include the following: overbuilding and increased competition; increases in property taxes and operating expenses; declines in the value of real estate; lack of availability of equity and debt financing to refinance maturing debt; vacancies due to economic conditions and tenant bankruptcies; losses due to costs resulting from environmental contamination and its related clean-up; changes in interest rates; changes in zoning laws; casualty or condemnation losses; variations in rental income; changes in neighborhood values; and functional obsolescence and appeal of properties to tenants.

TAM does not generally use any strategies involving frequent trading, but may opportunistically engage in short term trading under appropriate conditions. Such trading can increase transaction costs and thus lower net returns.

#### **Item 9 – Disciplinary Information**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of TAM's advisory business or the integrity of TAM's management.

#### **Item 10 – Other Financial Industry Activities and Affiliations**

TAM and MJW are wholly-owned by Third Avenue Holdings Delaware LLC ("TAH"), and MJW wholly owns PD, a broker of bank loans and trade claims. MJW and PD effect transactions for their own accounts and accounts in which their employees and equity owners of TAH have beneficial interests. Investments in the same securities may be recommended by both MJW (on a non-discretionary basis) and TAM to their clients (on a discretionary basis). TAM may utilize MJW and PD to execute transactions for TAM clients that instruct TAM to utilize those entities, for which MJW and/or PD may receive commissions. This presents a potential conflict as the ultimate owners of TAM are also the ultimate owners of MJW and PD. Please see Item 12 for more discussion of TAM's broker selection practices. Certain employees of TAM, including certain of its management persons, are licensed registered representatives of MJW for the purpose of offering and selling securities issued by registered and unregistered funds advised by TAM or its affiliates. For TAM clients that do not specifically instruct TAM to utilize MJW and PD to execute trades, those entities will only be used for execution on an exception basis, in which case no commission or other compensation will be charged.

AMG, a publicly-traded asset management holding company, holds a majority interest in certain other investment advisers ("AMG Affiliates"), a list of which is available upon request. As a result of AMG's ownership, AMG Affiliates are viewed as related persons of TAM under applicable law. TAM does not have any material business dealings with AMG Affiliates. AMG Affiliates do not formulate advice for TAM clients and do not, in TAM's view, present any potential conflicts of interest relative to TAM's clients.

TAM provides investment advisory and other administrative services, for which it receives compensation, from its affiliated mutual funds, the Third Avenue Trust, Third Avenue Variable Series Trust and Third Avenue Capital p.l.c., which may be deemed to be affiliates of TAM because of certain overlapping personnel and other factors. Absent specific authority, TAM and its affiliates do not exercise discretion with respect to clients' investments in any funds advised by TAM.

From time to time, TAM or its affiliates may act as general partner, managing member or other controlling entity that creates or sponsors limited partnerships, limited liability companies and other investment vehicles, and TAM clients may be solicited to invest in these vehicles. Certain wholly-owned subsidiaries of TAM serve as general partners for

limited partnerships or managing members of limited liability companies that TAM and its affiliates may create and/or place interests in such vehicles, which are privately placed and not registered with the SEC. TAM's affiliate, MJW, acts as placement agent for interests in private funds advised by TAM but does not receive compensation for that service. Absent specific authority, TAM and its affiliates do not exercise discretion with respect to making any client investments in these or other private funds.

*Issuer Directorships Held by Employees of TAM.* Employees of TAM may from time to time serve as directors of companies which issue securities in which TAM's clients invest. TAM has established procedures to seek to ensure that the material non-public information obtained through such directorships is kept confidential and is not used in any inappropriate manner.

These directorships could create conflicts when TAM clients invest in companies for which a TAM employee serves as a director. It has been TAM's general policy that, absent special circumstances, TAM personnel do not retain compensation because of their service on boards of public companies that issue securities held in client accounts where the position on the Board may be considered to be the result of the investment by TAM's clients in the company. TAM employees generally will waive any right to receive options in their roles as directors of these companies and remit all cash compensation to the funds advised by TAM that are invested in these companies, unless the position as director came about through circumstances unrelated to a TAM investment.

#### **Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

TAM has adopted a Code of Ethics (the "Code"), which provides policies and procedures designed to prevent any actual or potential conflicts of interest between TAM and its clients with respect to personal securities transactions of associated persons of TAM. All personnel are required to pre-clear personal security transactions (except in cases where the employee certifies that he or she has no discretion over the account and does not instruct the party that has discretion, and certain types of exempt securities because they present little opportunity for front-running, i.e.: Government bonds, exchange traded funds) before having their orders executed and have copies of their confirms and statements sent to TAM. Employees are also required to annually certify compliance with the Code and provide initial, quarterly and annual transaction reports. Employee securities orders which appear to conflict with client orders or with the Code are not permitted and may be cancelled or otherwise resolved pursuant to the Code. A copy of TAM's Code is available upon request.

Among other specific actions, the Code prohibits:

- causing a client account to take action or to fail to take action for personal benefit rather than to benefit such account/fund;
- using for personal benefit, knowledge of portfolio transactions made or contemplated; and

- disclosing current portfolio transactions made or contemplated for accounts/funds to anyone outside of TAM other than to facilitate client transactions.

TAM, its affiliates and its employees may give advice or take action for their own accounts that may differ from, conflict with or be adverse to advice given or action taken for clients. These activities may adversely affect the prices and availability of securities or instruments held by or potentially considered for one or more clients. Potential conflicts also may arise due to the fact that TAM and its personnel may have investments in certain funds advised by TAM but not in others or may have different levels of investments in such funds.

TAM has established policies and procedures to monitor and resolve conflicts with respect to investment opportunities in a manner it deems fair and equitable, including the restrictions placed on personal trading in the Code, as described above, and regular monitoring of employee transactions and trading patterns for actual or perceived conflicts of interest, including those conflicts that may arise as a result of personal trades in the same or similar securities made at or about the same time as client trades.

*Agency Cross Trades.* With client consent, and in compliance with applicable regulations, MJW may engage in agency cross trades (transactions in which MJW acts as broker for parties on both sides of a transaction and one party is a TAM client) and other transactions described below. Consent for agency cross trades may be revoked at any time by written notice to TAM.

TAM serves as investment adviser to a number of funds, and affiliates of TAM act as general partner or managing member of private funds for which TAM is the adviser. In such cases, TAM or its affiliates may inquire about a client's interest in investing in such funds, from which TAM and/or its affiliates receive compensation. Since receipt of compensation in connection with such investments poses a conflict of interest for TAM and its affiliates (if applicable), TAM does not ordinarily exercise investment discretion to place any clients into any funds advised by TAM.

TAM does not invest separate account assets in any TAM advised Fund. Where a fund shareholder becomes a separate account client of TAM or when a TAM separate account client invests in funds advised by TAM, its fund holdings and separate account holdings will be maintained separately.

## **Item 12 – Brokerage Practices**

Neither TAM nor its affiliates as principal buy from or sell any assets to any client. Transactions with MJW and PD are executed on an agency basis. Commissions charged on such transactions vary according to the size and nature of the transactions and of the account for which they are effected.

TAM's use of MJW or PD to execute client trades for compensation creates a conflict of interest. Where a client has not directed and authorized such use, TAM will not use

MJW or PD to execute transactions for the client's account (exceptions may be made on a limited basis, in which case no commission or other compensation will be charged). Where directed and authorized, TAM may, subject to best execution and client authorization or direction, use its affiliates, MJW and PD, to execute trades on behalf of its clients. As a general matter, the commission rates charged by brokers are negotiated and different rates may be charged depending on the service or package of services provided to the client. MJW has a standard commission schedule for TAM's clients. However, individual clients of MJW are subject to commission rates with MJW pursuant to MJW's stated commission schedule. It is therefore possible for clients engaging in identical transactions to be charged different commission rates by MJW based on assets under management. MJW may change its stated commission schedule at any time. However, MJW will not increase TAM's client commission rates without appropriate notice to TAM's clients. MJW is under no obligation to reduce a negotiated commission rate in accordance with any reductions in its fee schedule.

*Best Execution.* TAM seeks to obtain best execution of its clients' trades. In doing so, it considers the costs inherent in trading, including opportunity costs, market impact costs and commissions. Where TAM has brokerage discretion, and as permitted by the client, transactions in the client's portfolio may be executed by MJW as agent, subject to TAM's execution policies, which creates a conflict of interest for TAM. TAM may utilize, or suggest that its clients utilize, its affiliated broker-dealer, MJW, as well as its affiliate PD, to execute portfolio transactions for TAM's clients. To the extent that the broker-dealer services of MJW are utilized, clients (excluding wrap clients) are charged commissions or other similar transaction costs in addition to their investment advisory fees. TAM, through its Brokerage Committee, evaluates the quality of execution to its clients with special attention to MJW. TAM evaluates reports prepared by third-party vendors, which compare the trade execution of all brokers versus relevant metrics.

*Foreign Exchange Transactions.* The TAM trading desk utilizes the services of FXall to provide an execution platform with a network of eighty-four banks. TAM's trading desk has established a trading relationship with several of these banks. FXall offers continuous quotes from all the banks in their network for each currency in which they trade. FXall also provides trade execution quality reports.

*Soft Dollars.* TAM may compensate a broker for providing certain brokerage and research services by directing client commissions to the broker providing these services that may be more than would have been paid to another broker for executing the same trade without providing the additional services so that commissions paid on soft dollar trades may not be as low as the commission paid on trades to a broker that is not providing research. The services received include: proprietary research reports on individual issuers and industries (may be upon request or unsolicited), access to analysts, assistance in arranging meetings with executives of issuers (level of assistance may range from having executives visit TAM offices, to scheduling full itinerary for overseas trip visiting numerous executives at numerous issuers), and invitations to group presentations by analysts and/or issuer executives. Research services may include proprietary research (created or developed by the broker dealer) and research created or developed by a third

party. Research services obtained may be utilized in formulating investment advice for any clients of TAM, including clients other than those that paid commissions to the broker on the particular transaction. TAM does not seek to allocate soft dollar benefits among client accounts proportionally to the accounts generating soft dollar credits. TAM will only receive brokerage or research services in connection with transactions that are consistent with Section 28(e) of the Securities Exchange Act of 1934. TAM performs periodic reviews in order to determine that the commissions paid on soft dollar trades are reasonable in relation to the value of the brokerage and research services received. On a quarterly basis, TAM's Research Department will review its research needs and create a soft dollar budget for all TAM clients in the aggregate. The process by which this budget is created will be overseen by the Compliance Department, which works with senior members of the product teams to create an overall budget for the firm and to ensure that the budget is reviewed across product lines. At least semi-annually, the Compliance Department shall review the commission dollars paid to broker/dealers to ascertain whether TAM's trading desk is allocating those dollars in appropriate conformance with the soft dollar budget (with the understanding that this budget is not absolute and it may not be possible to allocate trades in the exact amounts budgeted).

TAM's selection of brokers to execute trades in exchange for research, which could possibly reduce TAM's cost of paying for research directly, presents a conflict of interest. As a result, TAM may have an incentive to select or recommend a broker dealer based on its interest in receiving research, products or services, rather than clients' interests in receiving most favorable execution. In order to monitor these conflicts, TAM's Brokerage Committee reviews best execution analysis reports prepared by an independent third party on a quarterly basis.

TAM may elect to utilize "commission sharing arrangements" to make payments for research. Under such an arrangement, TAM enters an agreement with a broker to remit a portion of the commissions paid on trades for TAM client accounts to a third party to compensate the third party for research provided to TAM. This indirect compensation arrangement may be initiated due to the inability of the research provider to execute trades, or the inability to do so in a manner that TAM believes to be efficient. TAM currently has one commission sharing arrangement in place under which an intermediary broker remits fees to several research providers. This arrangement does not oblige TAM to generate a specific level of commission payments to the intermediary broker, or compensation to the research providers.

*Allocation.* Securities considered for investment by a client or group of clients may also be appropriate for one or more other clients. If the purchase or sale of a security is considered at or about the same time for more than one client, TAM will seek to allocate transactions in such security among such clients in a manner considered by TAM to be fair, equitable and consistent with allocation procedures adopted by TAM in conformance with applicable rules and regulations.

TAM will normally aggregate orders when portfolio managers have submitted trade orders for multiple clients that all have the same instructions regarding price and timing.

TAM's allocation policies seek to ensure that TAM's clients receive fair treatment over time. To the extent that TAM aggregates transactions, allocation policies state that TAM must do so in a manner that is consistent with its duty to seek best execution of client orders, treats all clients equitably over time and does not systematically disadvantage any client.

Aggregated orders executed by MJW or PD, for clients that have authorized TAM to utilize these brokers, will generally not receive a reduced commission rate, as each client will pay the commission rate applicable to it.

Client orders will not be aggregated to the extent there are specific limitations such as brokerage directions that would prevent aggregation. Due to the number of accounts directing brokerage, TAM rotates the sequence of execution among directed brokers. When an aggregated order is filled, all participating clients receive the price at which the order was executed. If at a later time additional clients seek to purchase or sell the same security, TAM will place a new order and the clients participating in the new order will receive the average price at which the new order is executed.

In the event that an aggregated order is not entirely filled, TAM will generally allocate the purchases or sales among participating clients in accordance with objective criteria such as amount ordered, level of cash or desired size of position, or de minimis allocations.

*Exceptions.* There are occasions where TAM varies the trading procedures described above. TAM exercises its best judgment in determining whether clients that have directed brokerage should execute portfolio transactions simultaneously with, prior to, or after transactions executed with brokers selected by TAM.

*Directed Brokerage.* Clients may limit TAM's discretionary authority to utilize broker-dealers.

Transactions for a client who has directed the use of a particular broker-dealer may not be aggregated with orders of other clients without such directed relationships. Trades for such clients may be placed after other non-directed orders have been executed. Accordingly, directed transactions may be subject to price movements, particularly in volatile markets, that may result in the client receiving a price that is less favorable than the price obtained for the aggregated order. Clients who designate the use of a particular broker-dealer should consider whether such designation may result in certain costs or disadvantages such as higher commissions or less favorable execution, as well as the following:

1. Where TAM does not have discretion to select broker-dealers, TAM and its affiliates generally cannot negotiate commission rates. Rather, the commission rates will be those under the arrangement between the client and the broker and will not change as a result of TAM serving as investment adviser.



2. TAM cannot be responsible for obtaining competitive bids on directed trades done on a net basis.
3. TAM may be unable to obtain a more favorable price based on transaction volume on transactions that cannot be aggregated with transactions of its other advisory clients.
4. TAM may not be in a position to monitor directed trades for best execution.
5. TAM may enter the client's order after other clients' orders for the same security, with the result that market movements may work against the client.

TAM generally executes orders for wrap accounts or other fully directed relationships separately from transactions for non-directed accounts. Wrap, directed and non-directed accounts may trade the same securities at the same time. However, due to the number of brokers executing transactions for wrap or other directed relationships, execution may be completed at different times for clients in these relationships than for TAM's non-directed accounts (and may not be completed for several days after the completion of orders executed for TAM's non-directed accounts). As a consequence, different clients may receive different prices over time even while trading in the same securities.

*Wrap Fee and Other Directed Brokerage Arrangements.* TAM does not have discretion to select brokers-dealers with respect to wrap programs in which it serves as investment adviser. Nor does TAM have authority to select broker-dealers when directed by a separate account client or the primary adviser of a sub-advised portfolio to use a specific broker-dealer.

If a client is referred to TAM by a broker or if a client has opened a custodial account with a broker and directs TAM to execute its trades through such broker, it is TAM's practice not to negotiate commission rates with such broker. Clients are free to select or change brokers at their discretion. In the event that there is reason to believe the chosen brokerage firm cannot offer adequate service, TAM may be unable to accept management of, or continue to manage, the account.

Wrap fee clients are not charged separate commissions on each trade so long as the sponsoring broker-dealer executes the trade, and a portion of the wrap fee is generally considered to include commissions. In light of this feature, TAM considers the client's choice to participate in a wrap program sponsored by a particular broker-dealer as being a direction to TAM to use that broker-dealer unless the client specifies otherwise. In addition, in the event that a broker-dealer other than the sponsoring broker-dealer could execute at a better price for a security, wrap program clients would be required to pay the other broker-dealer's commission charges, which would not otherwise have to be paid. Thus, the non-wrap sponsor broker would need to offer a combined price and commission charge that bettered the price including commission that the sponsoring broker-dealer could offer, which in most cases would be unlikely.

In certain cases, a client may have a pre-existing brokerage relationship or may establish a brokerage relationship with a specific broker-dealer. A client's own broker-dealer or other financial adviser may have referred the client to TAM, or a client may have chosen to use a specific broker-dealer.

Wrap fee clients and other clients directing TAM to use a specific broker-dealer should satisfy themselves that the broker-dealer they have selected is providing adequate price and execution. The client should evaluate the fee charged by the wrap sponsor or directed broker, the amount of portfolio activity in their account, the value of custodial and other services provided under the arrangement, and other factors, to determine whether the fee is justified. A conflict of interest may exist between TAM's duty to obtain the most favorable commission rates and its receipt of future referrals from the client's broker-dealer or wrap program sponsor.

### **Item 13 – Review of Accounts**

Portfolio managers are primarily responsible for reviewing client accounts and do so periodically, individually or in a group, depending on account needs and market conditions. Reviews may be performed daily, weekly or monthly as portfolio managers deem appropriate or as otherwise required. Reviews may be undertaken because of changes in market conditions, changes in security positions, at a client's request, changes in objectives or as part of a regularly scheduled review. The sequence of review varies and may be by investment objective, random or otherwise. Both qualitative and quantitative approaches are utilized to monitor compliance with investment objectives and restrictions in light of portfolio changes. Triggering factors to initiate a review beyond those regularly scheduled would include attainment of a limit in target weighting for an individual security or an industry. Reviews are performed by a team of relevant professionals. Currently, for separate accounts, these reviews are performed by one portfolio manager, one trader and an operations supervisor.

Subject to certain thresholds, separate account clients will generally receive quarterly reports that include a list of current holdings, transactions for the reporting period, account performance, and investment commentary. Clients in wrap programs (other than MJW) generally receive reporting from the wrap program sponsor. TAM encourages clients to compare these reports to information they receive from their custodian.

Investors in the private funds for which TAM provides investment advisory services receive unaudited capital statements and reports of fund performance at least quarterly and audited financial statements annually.

### **Item 14 – Client Referrals and Other Compensation**

TAM may enter into various arrangements pursuant to which unaffiliated third parties may be compensated for referring clients to TAM. Except as otherwise described below, compensation is typically either a percentage of assets initially invested, or remaining

invested over time, or a percentage of TAM's advisory fees received from the referred clients. Such compensation may result in an additional charge to TAM's clients or in a different level of advisory fees than customarily charged by TAM.

From time to time, TAM or its affiliates may enter into agreements regarding the Third Avenue Funds, a mutual fund family for which TAM serves as investment advisor. TAM has entered into such agreements with MJW, certain marketers, and has historically had agreements with other third parties. Third parties may provide certain shareholder servicing and/or distribution support services in connection with the sale of shares of the Third Avenue Funds, including through sponsored platforms through which the funds are available for purchase, and in some cases, these third parties may refer clients to the funds. These third parties (and the intermediaries that sponsor platforms through which the funds are available) may receive cash compensation from the funds and TAM out of TAM's own resources, for the services that they provide. Compensation typically is a percentage of assets invested in the funds and/or a fee per account invested in a fund.

TAM or its affiliates also provide compensation for the referral of investors into the private funds and other funds advised by TAM, and such funds also may provide compensation directly for investor referrals. These arrangements are further described in the funds' offering documents.

#### **Item 15 – Custody**

Neither TAM nor any TAM affiliate takes physical possession of client assets, or holds them in TAM's name. TAM's affiliates do however act as general partner or managing member of several private funds and have control over the funds' assets. In addition, TAM has the ability to debit some client custody accounts for its advisory fee (with the prior authorization of the client). These circumstances require that TAM implement certain custody-related policies and procedures. For separately managed accounts, clients receive quarterly statements from their custodian, which clients should carefully review and compare to any reports received from TAM.

#### **Item 16 – Investment Discretion**

TAM maintains investment discretion for all client accounts. Separately managed account clients may request specific investment restrictions to be incorporated into the investment management agreement. TAM will to a limited extent accept such requests when in TAM's opinion, they will not unreasonably impede TAM's ability to manage the account consistent with the stated investment mandate. Clients should be aware that any restrictions imposed on the account may cause TAM to deviate from investment decisions that it would otherwise make. Funds managed by TAM are subject to the policies and restrictions stated in the funds' offering documents.

## **Item 17 – Voting Client Securities**

TAM is generally granted full investment discretion to vote proxies, although clients that have granted TAM full discretion may direct their vote in particular solicitations by contacting their account representative. In addition, TAM may share voting responsibility with a client who has retained the right to veto TAM's voting decisions. Under such circumstances, TAM would provide a copy of the proxy material to the client reserving this right, along with TAM's determination of how it plans to vote the proxy, unless instructed otherwise by the client prior to the relevant deadline. In certain cases, in accordance with the agreement governing the account, the client may expressly retain the authority to vote proxies or delegate voting authority to a third party. In such cases, the proxy voting policies and procedures described below would not apply and TAM would advise the client to instruct its custodian where to forward proxy materials. Clients expressly retaining the authority to vote proxies or that have delegated proxy voting to a third party may contact TAM at 212-888-5222 with any questions about a particular solicitation.

*Policy Guidelines.* Employing a long-term investment strategy, one of TAM's primary considerations for any purchase candidate is a company's management. TAM's initial decision to buy securities of a company is generally based, at least in part, on TAM's support for the company's management. It is therefore the policy of TAM to generally support the management of its investments. While TAM generally supports a company's management, it is also mindful of clients' rights as shareholders and TAM is therefore always against poison pill proposals. The policy and procedures below describe how TAM votes proxies for its clients.

TAM has developed detailed policy guidelines on voting commonly presented proxy issues relating to (1) corporate governance, (2) equity-based compensation plans, (3) anti-takeover measures and (4) social policy issues. The guidelines, which are subject to ongoing review, are subject to exceptions on a case-by-case basis. TAM's policy is to exercise voting and consent rights solely in the interest of enhancing or preserving value for its clients.

*Abstention From Voting.* TAM will normally abstain from voting when it believes the cost of voting is too high or will exceed the expected benefit to investment advisory clients. The most common circumstances where that may be the case involve foreign proxies. In addition, TAM may be restricted from voting proxies of a given issuer during certain periods if it has made certain regulatory filings with respect to that issuer.

*Conflicts of Interest.* When presented with an actual or potential conflict in voting a proxy, TAM shall address the matter using an appropriate method to assure that the proxy vote is free from any improper influence by: (1) determining that there is no conflict or that it is immaterial, (2) ensuring that TAM votes in accordance with a predetermined policy, (3) engaging an independent third-party professional to vote the proxy or advise TAM how to vote or (4) presenting the conflict to one or more of the clients involved and obtaining direction on how to vote.

*Requests for Additional Information.* Clients may obtain a copy of TAM's full proxy voting policies and procedures and information on how proxies were voted on securities held in the client's account by contacting the client's account representative.

**Item 18 – Financial Information**

**Not Applicable**