



Third Avenue Value Fund

Third Avenue Small-Cap Value Fund

Third Avenue Real Estate Value Fund

Third Avenue International Value Fund

THIRD QUARTER PORTFOLIO MANAGER COMMENTARY

31 JULY 2010

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Founder's Letter



MARTIN J. WHITMAN
CHAIRMAN OF THE BOARD
THIRD AVENUE MANAGEMENT
(THIRD AVENUE MANAGEMENT AND THIRD AVENUE
CAPITAL ARE SUBSIDIARIES OF THIRD AVENUE
HOLDINGS, DELAWARE.)

Dear Fellow Shareholders:

I remain enthusiastic about the Third Avenue Value Fund UCITS current portfolio, the vast bulk of which seems best described as Graham & Dodd "Net Nets" on steroids. However, it may be hard for investors to understand Third Avenue's investment approach unless the investor has some sense of the uses and limitations of financial accounting, especially as it pertains to value investing. Thus, in this quarterly letter I discuss "The Uses and Limitations of Financial Accounting for the Value Investor".

The first rule to remember is that financial accounting can't tell "The Truth". Financial accounting systems such as Generally Accepted Accounting Principles ("GAAP") have to be based on a relatively rigid set of assumptions that cannot in all (or even most) contexts reflect economic reality. What economic reality is has to be determined by the users of GAAP, the analyst, not the preparer of GAAP financial statements, the CPA. Yet GAAP or other accounting systems such as International Financial Reporting Systems ("IFRS") or Statutory Accounting Systems for U.S. insurance companies, are essential, irreplaceable, tools for the value analyst. GAAP and GAAP like financial statements are virtually the only quantitative objective benchmarks available to the analyst in the vast majority of situations. The value analyst uses these objective benchmarks to ascertain his or her determinations of what economic reality is.

The second rule to remember is that financial statements, unadjusted by the user, almost always will be misleading in one context or another:

Accrual accounting, the basis for most of GAAP, tends to mislead because of the failure to reflect good estimations of the cash flow experience, whether positive or negative. (Financial textbooks such as Brealey and Myers Principles of Corporate Finance overestimate the importance of internally generated cash flows.)

Cash accounting tends to mislead because it doesn't reflect any estimation of the wealth creation, or wealth destruction, experience.

The third thing to remember in value investing is that there is no Primacy of the Income Account despite its general acceptance on Wall Street, even by Graham & Dodd in their various editions of Security Analysis; Principles and Technique. Rather every accounting entry can be important in a value analysis. There is recognition of the accounting cycle fact that every accounting number is derived from, modified by and a function of other accounting numbers. This grows out of the recognition by the value analyst that corporate value is created in a multiplicity of ways, sometime related to each other, sometimes not. At Third Avenue, for purposes of analysis, we recognize four different ways in which Corporate Values are created:

- 1) Cash flows from operations available to securities holders. This, while not uncommon, seems more rare than seems to be believed by most commentators.
- 2) Earnings, with earning defined as creating wealth while consuming cash. This seems to be what the vast majority of businesses and the vast majority of governments do the vast majority of the time. For the vast majority of entities, it is hard for earnings to deliver good results to shareholders over the long term unless the entity has access to capital markets or has created saleable assets. As a practical matter for earnings to create corporate value, the entity has to remain, or become, credit-worthy.
- 3) Resource Conversion results in the creation of corporate wealth through asset redeployments, liability restructurings, and changes of control. These are accomplished through mergers and acquisitions, liquidations, investing in new areas, cash purchases of control blocks of securities, voluntary exchanges, spin-offs, debt restructurings, repurchasing outstanding common stocks while either leaving the issuer a public entity, or going private.

- 4) Having access to capital markets on a super attractive basis. Probably more corporate value has been created this way than any other, especially when such super attractive access is combined with an ability for the entity to benefit from an absence, or relative absence, of income tax burdens. Such super attractive access to capital markets includes both equity markets and credit markets. A primary example of an equity market where corporations had super attractive access (free money if you wish) was the pre 2000 dot com bubble. Credit markets which are super attractive include the availability of non-recourse mortgage loans for a long term at low, fixed interest rates issued to finance the ownership of income producing real estate.

A good example of the difficulty in prescribing GAAP rules that reflect economic reality revolves around accounting for financial instruments, whether those instruments should be carried at amortized cost less impairments, or at lower of cost or fair value (with fair value usually equaling market price). The Financial Accounting Standards Board is considering the matter currently. The FASB's current position seems wise – disclose both amortized cost and fair value. One disclosure would be in the financial statements themselves and the other would be in the footnotes to the financial statements. The real world scenarios for accounting for financial instruments are so complex, I'd leave it up to corporate managements to decide whether fair value ought to be in the financial statements or footnotes; ditto for amortized cost, of course. Whichever management chooses becomes a good tool to help value analysts appraise management, e.g. how promotional are they?

Take a look at the complexity involved in accounting for financial instruments. In appraising a portfolio of non-control, marketable common stocks, there is no question that the appropriate standard is fair value. In appraising a portfolio of high quality performing loans which the holder intends to hold to maturity, the preferred standard should be amortized cost. But even this is complicated. Assume in the case of an equity portfolio that the holder has designs on getting control of some of the issuers whose common stock is in the portfolio. Fair value here can be misleading since from the point of view of the holder, the lower the fair value (i.e. market price) the more favorable to the holder. Assume that the portfolio of performing loans is financed almost wholly by interest bearing liabilities, the collateral for which is the performing loan portfolio. Here the liabilities would be worth their principal amount, unless that holder had other resources which he could use to acquire the liabilities at a discount, if available. In this case fair value seems a much better measure for the performing loans than amortized cost simply because it is possible that an event of default on the performing loans will be measured by fair value rather than amortized cost. It ought to be noted about events of default that there exist two, not one, general tests of insolvency. First there is the balance sheet test – does the fair value of the assets exceed the claim value of the liabilities? In the above leveraged balance sheet, the fair value of the performing loan portfolio could have flunked the balance sheet test. Second, there is the income test – will the borrowing entity be able to service its liability obligations as they become due? Normally, in gauging insolvency, the income test is far more important the balance sheet test. Maybe the performing loan portfolio would pass the income test with flying colors while flunking the balance sheet test. If so, I'd postulate that amortized cost were the more important measure; if not I'd opt for fair value. However, it should be noted that whether or not an event of default exists would be determined by the covenants in loan agreements and bond indentures.

Note that fair value measures can have perverse effects for an analyst. Take portfolios of performing loans that are financed by liabilities that are not interest bearing. This is the situation that exists for insurance companies and pension plans. Most insurance companies and most pension plans are continually reinvesting money received from maturing obligations into new obligations and also investing new moneys into new obligations, the vast bulk of which will be performing loans held to maturity. Assume interest rates rise sharply. Fair values will decrease dramatically but future net investment income will be much greater than would have been the case if interest rates had not risen. Which should be weighed more heavily; the current reductions in fair value or the prospective increases in investment income. That is something for the analyst, not the accountant, to decide.

I learned a great lesson about inflation accounting in the late 1970's, early 1980's. At that time the accounting authorities together with the Securities and Exchange Commission ("SEC") put in place as a financial statement supplement, "Inflation Accounting," i.e., Current Value Accounting. Inflation accounting was designed to ameliorate the effects of overstated

earnings caused by companies in a highly inflationary environment taking inadequate depreciation charges for expenditures they would have to make to replace aging property and equipment. At the time, I thought this brought some truth to accounting, never realizing other effects of rampant inflation. Because costs increased so rapidly, there were huge benefits to many companies with large amounts of "sunk costs." New competitors couldn't afford to enter the industry and existing companies found it hard to expand. Net, net, probably competitive relief because of rampant inflation was more important than materially inadequate depreciation charges. There was no way GAAP could handle both.

It is much more important for the U.S. economy to have its accounting systems geared toward informing creditors in a meaningful fashion than it is to have accounting systems directed toward meeting the perceived needs of Outside Passive Minority Investors ("OPMIs"). First, there is a lot more credit outstanding in the economy than there is net worth. Second, creditors use accounting to help determine the credit-worthiness of a company by estimating whether that company will be able to generate cash internally, both long and short term, to pay its bills, and by estimating whether that company is likely to have relatively continual access to capital markets, especially credit markets. In contrast, OPMIs tend to place overemphasis on one accounting number – reported earnings – in order to predict what stock market prices in the immediate future might be. Bluntly, accounting systems do not seem as if they can really be very helpful as a tool for predicting near-term equity prices in OPMI markets. As far as I can tell, near-term market prices for common stocks in non-arbitrage situations will continue to be a "random walk".

Cash payments are very different from stock options from a creditors' point of view. Cash payments by a company can affect the credit-worthiness of a business. Cash payments, therefore, are a Company and a Creditor problem. With minor exceptions, the issuance of stock options has no effect whatsoever on the credit-worthiness of a company. Instead, stock options result presently, or prospectively, in the dilution of existing stockholders' ownership interests. Stock options are not a Company and Creditor problem. They are a Stockholder problem.

Those who think of options as an expense have it wrong, at least from the Company and Creditor points of view. Warren Buffett is quoting as saying, "If options are not a form of compensation what are they? If compensation isn't an expense, what is it? And if expenses shouldn't go into the calculations of earnings, where in the world should they go? Frankly, the Buffett statement is an overgeneralization, even though most finance academics seem to be wholly in concurrence. Stock options are not compensation from the points of view of the company itself, or its creditors. Stock options certainly are "compensation" when looked at strictly from the point of view of stockholders. The issuance of options results in present, or potential, dilution of common stockholders' interests.

Assuming stock options are to be treated as a company expense, what should that expense be? Presently, the disclosure required under GAAP assumes that the cost of options to the company equals the theoretical value of the options to the recipients. However, it is utterly ludicrous to suppose that the value of a benefit to a recipient has any necessary relationship to the cost to a company to bestow that benefit. It is as if a sales clerk who has a 40% off employee discount buys a \$100 sweater from her department store for \$60 and the store then states that it incurred a cost of \$100 because that is what the sweater is worth to the clerk, even though the company's actual cost for the sweater might be, say, \$35. The real cost of an executive option to the company (rather than to its stockholders) equals the present value of the probability that option program will reduce the company's future access to capital markets, especially equity markets. I would not know how to measure such a cost. In fact, there should be an offset to this cost, namely the present value of the probability that the options program increases the retention of talent and/or motivates that talent's productivity.

The cases where stock options become a company problem as well as a stockholder problem seem few and far between. Options are a company problem long term insofar as they either cause the company to pay out cash (or property); or if the issuance reduces access to capital markets. In general, those cases where stock options become a Company problem seem to encompass the following:

- 1) The company is committed, or required, to pay out an ultra high percentage of future earnings as cash dividends to common stockholders. Such companies include Real Estate Investment Trusts (“REITs”).
- 2) The potential issuance of common stock through the exercise of stock options reduces the company’s future access to capital markets to raise new funds.
- 3) The company is committed to having the amount of common stock outstanding relatively fixed, and therefore, acquire for cash, or property, enough outstanding common stock to cover the new issuance of common stock through the exercise of stock options.

Over 80% of the Value Fund portfolio is invested in the common stocks of companies I like to think of as Graham and Dodd Net Nets on steroids. The reason for steroids is that the prospects seem bright that over the next five to seven years that Net Asset Values (“NAVs”) of the Value Fund portfolio companies will increase by not less than 10% to 20% per annum compounded. Value Fund Net Nets count as current assets high quality assets, surely convertible to cash in a year or so. Graham and Dodd, in contrast, define current assets only as assets defined as current in conventional classified balance sheets.

Other thing being equal the Graham and Dodd Net Nets held by the Value Fund are susceptible to resource conversion activities, especially changes of control, including transfers of elements of control, and going privates, i.e., insider buyouts. This is so because the common stocks are so cheap relative to business values and each company enjoys a super strong financial position.

I have no question that the Value Fund’s Hong Kong based Net Nets would be highly attractive to various Chinese Mainland entities. However, there will never be a change of control in any of our Hong Kong Net Nets unless it results from a friendly, negotiated transaction. Insiders in each company own enough common stock to thwart easily any hostile takeover attempts. If there ever were to be a change of control in any of the Hong Kong Common Stocks owned by the Value Fund, the prices paid for these securities ought to reflect huge premiums over current prices.

While going private transactions almost always are priced at substantial premiums over then existing market prices, this is far from always attractive for buy and hold investors such as Third Avenue. This is because the buyer in the going private transaction has complete control of the timing of the transaction. The buyer has incentive to propose a transaction when market prices for the common stock are depressed.

I have no idea as to whether or not changes of control or transfers of elements of control, or going privates ever will occur for any of the Net Nets held in the Value Fund portfolio. Rather a basic reason for owning these common stocks is that the prospects appear to be so very good that NAVs will grow over the next 5 to 7 years at rates by not less than 10% to 20% per annum compounded.

All of the Fund’s common stock portfolio is in the issues of extremely well capitalized companies which were acquired at prices, what at the time of acquisition, represented meaningful discounts from readily ascertainable NAVs. The NAVs became readily ascertainable insofar as the specific assets consisted of certain marketable securities; income producing real estate; land suitable for development; and intangibles such as mutual fund assets under management. Rarely (except for cash and equivalents) were these readily ascertainable asset values classified as current assets under GAAP. The fund’s definition of Net-Nets is taken from Graham and Dodd’s Security Analysis, but with a few twists. Graham and Dodd relied on a GAAP classified balance sheet to define current assets in order to ascertain if a common stock was a Net-Net. TAVF uses its own judgment rather than GAAP classification to define current assets in order to decide what is a liquid i.e., current, asset.

Graham and Dodd describe Net-Nets in the 1962 edition of security Analysis on pages 561 and 562:

“Net-Current-Asset Value: We feel on more solid ground in discussing these cases in which the market price or the computed value based on earnings and dividends is less than the net current assets applicable to the common stock. [The reader will recall that in this computation we deduct all obligations and preferred stock from the working capital to determine the balance for the common.] From long experience with this type of situation we can say that it is always interesting, and that the purchase of a diversified group of companies on this ‘bargain basis’ is almost certain to result profitably within a reasonable period of time. One reason for calling such purchases bargain issues is that usually net-current-asset values may be considered a conservative measure of liquidation value. Thus as a practical matter such companies could be disposed of for not less than their working capital, if that capital is conservatively stated. It is a general rule that at least enough can be realized for the plant account and miscellaneous assets to offset any shrinkage sustained in the process of turning current assets into cash. [This rule would nearly always apply to a negotiated sale of the business to some reasonably interested buyer.] The working capital value behind a common stock can be readily computed. Consequently, by using this figure (i.e., Net Net asset value) as the equivalent of ‘minimum liquidating value’ we can discuss with some degree of confidence the actual relationship between the market price of a stock and the realizable value of the business.”

While Graham and Dodd seem to have invented the idea of Net-Nets, Third Avenue uses that idea with a number of modifications. First, the Fund is not interested in Net-Nets unless the company is extremely well financed. A large quantity of current assets, especially if they consist of inventories, costs in excess of billings, or receivables from less than credit-worthy customers, probably cannot help the common stock of a company which cannot meet its obligations to its creditors. Second, many current assets classified as current assets under GAAP are really fixed assets of the worst sort. Take department store merchandise inventories. If the department store is to be liquidated, merchandise inventories are indeed a current asset, convertible to cash within 12 months at prices that conceivably could be close to book value, although much less than book value may be realized if the merchandise is disposed of in a GOB (“Going Out of Business”) sale. On the other hand, if the department store is a going concern, merchandise inventories are a fixed asset of the worst sort. The merchandise inventories have to be replaced, are hard to value, and are subject to markdowns, obsolescence, shrinkage, seasonality and mislocation. The Toyota Industries portfolio of marketable securities and the Brookfield Asset Management’s portfolio of Class A Office Buildings seem to be much more of a current asset than department store merchandise inventories even though, for GAAP purposes, Toyota Industries’ marketable securities, and Brookfield Asset Managements’ Class A office buildings, are not considered a current asset. Third, the Graham and Dodd formulation does not account for off balance sheet liabilities which may, or may not, be disclosed in footnotes; nor do Graham and Dodd take into account excessive expenses or losses; at Third Avenue such expenses or losses are capitalized and added to liabilities. Fourth, Graham and Dodd only seem to recognize partially that certain fixed assets, e.g. property, plant, and equipment, can sometimes create cash. For example, under Section 1231 of the U.S. Internal Revenue Code, the sale at a loss of such assets used in a trade or business, usually gives rise to an ordinary loss for income tax purposes. In that case, a corporation may be able to apply the loss first to reduce the current year taxes and any excess loss might be used to get “quickie” cash refunds from the IRS with regard to taxes paid in the prior two years (sometimes five years).

The identification of Net-Nets has not proved that difficult for the Fund, even though most of the Value Fund’s investments now are outside the United States.

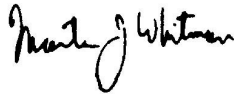
For most market participants, the most important accounting number is earnings per share reported for a quarter. There are times in corporate analysis where quarterly earnings deserve great weight. Those times exist for not well capitalized companies that need relatively continuous access to capital markets. Also quarterly earnings can have a major impact on heavily margined portfolios. Neither of these conditions pertains to the Value Fund, which invests only in the common stocks of very well capitalized companies; also the Fund does not borrow money. Quarterly earnings are highly important to Third Avenue insofar as they provide evidence that a business has suffered, or is suffering, a permanent impairment. None of the current common stocks in the Value Fund portfolio seem to be close to suffering a permanent impairment, current tough economic times especially in North America and Europe, notwithstanding Fund management keeps a wary eye, however, on probabilities of permanent impairment.

In examining probable directions financial accounting ought to take, I have a few suggestions:

- 1) The company is a stand-alone and its financial statements should reflect this fact. It is not the stockholders, it is not the management. If this were recognized there never would have been a "stock option" controversy in the first place.
- 2) Financial accounting should be directed first and foremost, toward meeting the needs of creditors. There certainly should exist a modifying convention of conservatism. It is impossible to design a meaningful accounting system to meet the perceived needs of day traders and stock market technicians, whether market participants or financial academics.
- 3) Insofar as possible, financial accounts ought to be based on principles rather than rules. Now, because of a focus on rules, GAAP has become as complicated as the Internal Revenue Code ("IRC"). What a waste!
- 4) Financial statements ought to be prepared on the assumption that users are intelligent, diligent, and reasonably well trained in understanding the uses and limitations of financial accounting.

There are investment areas where financial accounting is important indeed, vital. For example financial statements seem always to be a key in credit analysis. However, there are equity areas where financial statements become relatively unimportant. These areas include equity participations in new inventions and new discoveries and also certain areas where issuers are sitting on huge amounts of unrealized appreciation which unrealized appreciation is almost impossible to measure by any tool available to a non-control investor. Those seem to be areas where value investors ought to fear to tread. Unlike most general market participants, value investors are bottom-up participants, people who aren't interested in all securities. Many of such securities are just unsuitable, unanalyzable using value investing techniques.

Sincerely yours,



Martin J. Whitman
Chairman Of The Board
Third Avenue Management

Third Avenue Value Fund



MARTIN J. WHITMAN
PORTFOLIO MANAGER
THIRD AVENUE VALUE FUND



IAN LAPEY
PORTFOLIO MANAGER
THIRD AVENUE VALUE FUND

Dear Valued Shareholders:

We are pleased to present you with the Third Quarter commentary for the Third Avenue Value Fund UCITS ("The Fund"). The Fund seeks to achieve long-term capital appreciation with limited investment risk by investing opportunistically, without constraints on geography, market capitalization or industry. A list of portfolio changes follows with thoughts on a few securities of note.

New Positions

Equity Securities

Brookfield Infrastructure Partners LP
Capital Southwest Corp.

Positions Increased

Equity Securities

The Bank of New York Mellon
Genovus Energy Inc.
EnCana Corp.
Forest City Enterprises Inc.
Hang Lung Group
Keycorp
Sycamore Networks
Tejon Ranch Co.
Tellabs
Toyota Industries Corp.
Wharf Holdings Ltd.

Positions Eliminated

Equity Securities

CIT Group
Jardine Matheson Holdings
MDC Holdings Inc.
Pargesa Holdings SA

Debt Securities

CIT Group 7.00% 05/01/2013
CIT Group 7.00% 05/01/2014
CIT Group 7.00% 05/01/2015
CIT Group 7.00% 05/01/2016
CIT Group 7.00% 05/01/2017

Positions Decreased

Equity Securities

AVX Corp.
Brookfield Asset Management
Cheung Kong Holdings Ltd.
Cimarex Energy Co.
Guoco Group Ltd.
Henderson Land Development Co.
Investor AB
POSCO
Wheelock & Co.

DISCUSSION OF SIGNIFICANT QUARTERLY ACTIVITY

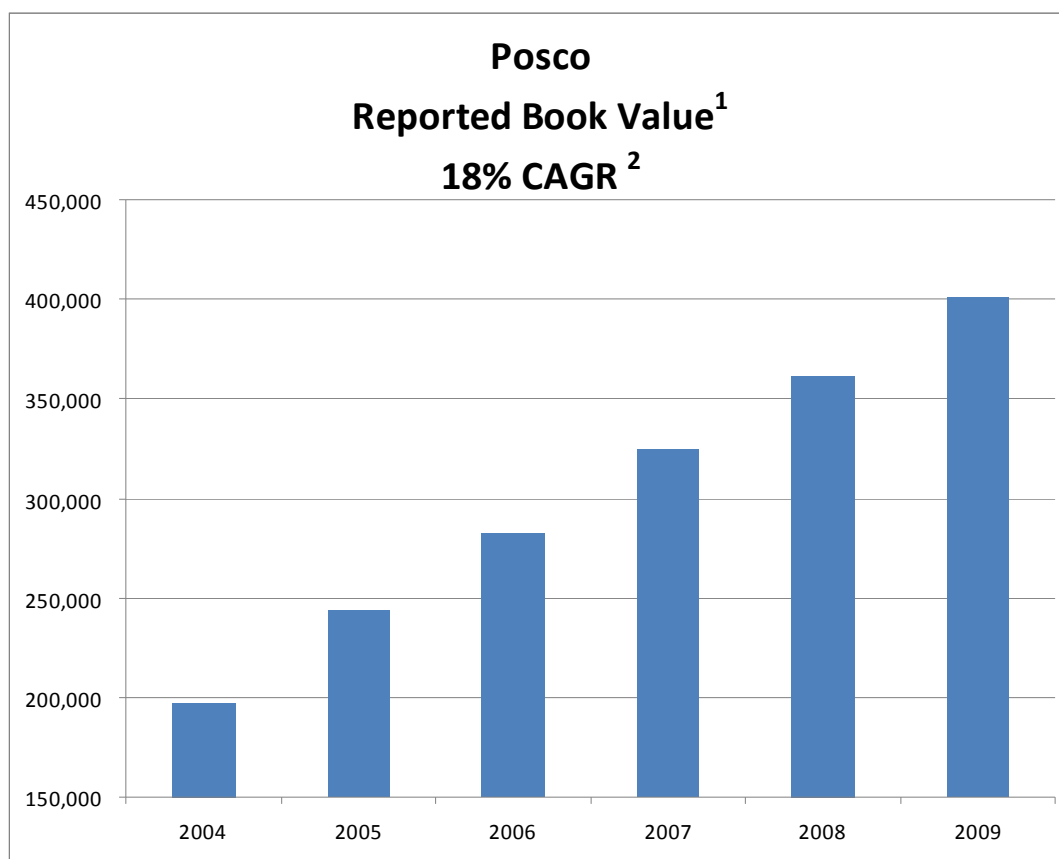
Fund management added to its position in Sycamore Common, following the company's announcement of a new product, IQstream, which is designed to help mobile carriers address the rapid growth of broadband applications on their networks. While it is much too early to claim commercial success for this product (it will not even become available for customers until the fourth quarter), it appears to have attractive potential. Fund management was able to purchase Sycamore Common at nearly a 10% discount to the company's cash and investments, ascribing no value to its existing business or Net Operating Loss Carry-forwards available to offset future taxable income.

Posco – 5-Year Review

One of the largest detractors to the Fund's 2010 performance has been our investment in Posco's American Depository Receipts ("Posco Common"), which were down 21% year to date through July 31, 2010. Posco is a leading Korea-based steel producer. Like the 2010 common stock price declines of several of our other Asian blue-chips (e.g. Henderson Land, Cheung Kong and Wharf), Posco's reported business results have been strong. Specifically, Posco recently reported that second quarter operating profit increased by more than 10 times compared to the second quarter of 2009, driven by a 25% increase in revenues and a 23.1% operating margin (parent company), up from 2.7% a year ago.

Apparently, the weakness in the stock so far in 2010 has been primarily driven by a less robust near - term earnings outlook. Owing primarily to rising raw materials costs, Posco's full year 2010 operating margin is projected to decline to 17% from 22% in the first half of 2010.

Third Avenue initially invested in Posco Common in early 2005. Along with Posco's strong financial position and compelling valuation, one of the primary attractions of the investment was the company's impressive track record as a low cost steel producer. Notably, during the Asian crisis in the late 1990s, Posco's operating margin never fell below 10%. During the five and a half years that the Firm has been a shareholder, Fund management has been very pleased with Posco's business performance. During the global recession in 2009, when many steel companies lost money, Posco was profitable every quarter, reported a double digit operating margin and generated approximately \$2 billion in free cash flow. As a result, Posco did not have to raise dilutive equity the way other steel companies did (e.g., US Steel issued equity in April 2009, resulting in dilution of more than 20%). As the chart below indicates, Posco's book value has grown at an 18% compounded annual growth rate (CAGR), including dividends, over the last five years.



1) In Korean Won per share. 2) Including dividends

Although the price of Posco Common has more than doubled since the Fund initially invested, the shares remain attractively priced. As the table below indicates, Posco trades at only 8 times earnings over the last 12 months and 1.2 times book value, despite the best margins and strongest balance sheet among its peer group.

Posco - the Low Cost Producer with the Strongest Balance Sheet and Most Attractive Valuation

	Consolidated Operating margin			PE (2)	Price / TBV (3)	Net Debt to Cap
	2008	2009	2010 YTD			
Posco	17%	10%	17%	8	1.2	2%
ArcelorMittal	10%	-3%	6%	11	1.1	25%
Nippon Steel (1)	7%	1%	5%	32	1.1	36%
US Steel	13%	-15%	2%	NM	2.4	30%

(1) Fiscal year ended March 31.

(2) based on trailing 12 month earnings

(3) Tangible Book Value

NM - Not Meaningful since Net Income is negative.

Source: Company reports. Prices are as of 7/31/10.

Posco also appears to have an attractive long - term growth outlook. The company plans to increase steel production to 65 million tons in 2018 from 33 million tons currently, driven by the following:

- Growth of domestic capacity to 41 million tons from 33 million tons. Posco began expansion of both its Pohang and Gwangyang integrated steel mills in 2008, and the projects should be complete by the end of this year.
- Posco is planning new integrated steel mills in India (12 million tons) and Indonesia (6 million tons). These projects are expected to be completed in stages using Posco's proprietary FINEX technology, which generates significant savings in raw materials.
- The company also has been working on several smaller downstream projects, including a cold rolling mill in Vietnam and automotive steel plants in Mexico and India.
- In May, 2010, Posco was named the preferred bidder to acquire a 68% stake in Daewoo International, a leading Korean trading and investment firm. If completed, this transaction would enhance Posco's steel export business and access to raw materials.

Fund management has often viewed political risk as the biggest problem with the Posco investment, and the recent report of the sinking of a South Korean ship by North Korea is unsettling. If a steel company like Posco were based in the US, its common stock would be a preferable investment if available at a similar valuation. However, as the table above shows, there is a massive disparity in cost structure, valuation and balance sheet between US Steel and Posco. Additionally, Posco appears to have a much better long - term growth outlook. Finally, as the table below shows, the macroeconomic statistics for South Korea seem to be more favorable than those in the US.

Economic Data - US vs. South Korea

	GDP Growth (1)							Unemployment Rate (2)	Budget Deficit to GDP (3)
	2008A	2009A	1Q2010A	2Q2010A	3Q2010E	4Q2010E	2011E		
US	0.4%	-2.4%	2.7%	2.4%	2.8%	2.8%	2.9%	9.5%	9.9%
South Korea	2.3%	2.0%	8.1%	7.2%	4.4%	4.6%	4.6%	3.5%	1.7%

(1) Year over year

(2) June, 2010

(3) 2009

Sources: Bloomberg Economic Forecast data, The Economist, CIA South Korea World Factbook, The White House Office of Management and Budget.

Insider Buying

The Chairmen of companies whose common stocks represent the largest two positions in the Fund, Lee Shau Kee at Henderson Land Development Co. ("Henderson Common") and Li Ka Shing at Cheung Kong Holdings Ltd, ("Cheung Kong Common") have continued to purchase shares of their respective company's common stock during the three months ended July 31, 2010:

- Lee Shau Kee purchased approximately 9 million shares of Henderson Common for HK\$432 million (US\$56 million) and elected to receive stock (17 million shares) instead of cash for the company's final 2010 dividend. Lee Shau Kee owns approximately 54.3% of Henderson Common.
- Li Ka Shing purchased approximately 2.5 million shares of Cheung Kong Common for HK\$230 million (US\$30 million). Li Ka Shing owns approximately 42.1% of Cheung Kong Common.

We view these purchases as a sign of their continued confidence in the future successes of their companies. Additionally, Martin Whitman and I, the Co-managers of the Fund, each made substantial additional purchases of the Third Avenue Value Fund, the U.S. mutual fund that follows the same strategy we employ here in the UCITS.

Third Avenue vs. Market Participants

I recently read No One Would Listen, by Harry Markopolos, the Madoff whistleblower. The discussion of Madoff's marketing strategy, which shared many attributes with other market participants, and success in raising funds was particularly interesting. There are significant differences between the strategies used by Third Avenue and other market participants:

- **Consistent performance.** Many market participants strive to outperform relative benchmarks consistently or generate consistently positive absolute returns. Fund management strives to generate long - term capital appreciation and outperform the relevant benchmarks on average over the long - term and most of the time. Since inception of the U.S. mutual fund in 1990, the Fund has generated an average annual return of 12.3%, which is considerably better than the S&P 500 and MSCI World indices returns of 8.6% and 7.0% over the same periods (for a more detailed discussion of the Value Fund's more recent outperformance during the decade ended December 31, 2009, see the January 31, 2010 shareholder letter). However, the Fund has not outperformed consistently as evidenced by its underperformance in 1998-1999 and 2008. Consistent outperformance is not a realistic expectation.
- **Timing the market.** Many investors spend considerable time and effort trying to predict short-term market movements. This "analysis" often focuses on macro events such as the recent debt crisis in Greece. It appears that the bear market of 2008 heightened most investors' focus on market risk and many appear to ignore or underweight bottom-up considerations, which appear to be quite favorable for most of the companies in whose common stocks the Fund is currently invested. Fund management makes no attempt to time the markets but rather focuses on protecting against investment risk as opposed to market risk. We buy securities that meet our "Safe and Cheap" criteria when the prices are "good enough" and do not attempt to pick at the bottom.
- **Disclosure.** Many market participants, such as hedge funds, provide very limited portfolio disclosure. For mutual funds that are active traders, the required quarterly portfolio disclosure may not be relevant by the time it is received by the investor. Fund management provides significant disclosure about the Fund including quarterly shareholder letters and full portfolio disclosure and monthly updates, including the top ten holdings. Additionally, owing to the Fund's very low turnover (14% per year for the most recent decade) the portfolio does not usually undergo dramatic shifts between reporting periods. The average annual mutual fund turnover was 85% according to Morningstar data.
- **Complexity.** Many market participants rely on complex, proprietary models. These can take many forms, including valuation models such as discounted cash flow models that are inherently reliant on detailed cash flow projections and other assumptions or short-term trading models based on variables like momentum and liquidity. Third Avenue uses a simple and easy - to - understand "Safe and Cheap" common stock investing philosophy. Fund management buys common stocks of issuers with strong financial positions, competent management teams and understandable businesses with attractive long - term growth prospects when the securities are trading at significant discounts from our estimates of intrinsic value (see analysis of Posco Common above).
- **Inside information.** Many market participants try to "push the envelope" legally and be the first to learn of potential market-moving information. Third Avenue's investing approach is based on superior analysis of publically available information as opposed to trying to be the first to learn of market-moving news. In fact, based on our buy and hold approach and resultant paucity of commissions paid to the Street, we are often among the last to learn of news (e.g., when it is publicly disclosed). As Martin Whitman discusses in his Founder's Letter this quarter, we use publicly disclosed GAAP and GAAP like financial statements as objective benchmarks to ascertain what economic reality is. We focus on what the numbers mean as opposed to what they are.

Although the Third Avenue approach is quite different from that employed by most market participants, it is actually mainstream compared to much of the business world. Fund management seeks to generate long - term capital appreciation for its shareholders by investing primarily in common stocks of companies trading at significant discounts from net asset value (NAV) that we believe can generate double digit NAV growth on a 5-7 year horizon. This approach appears to be similar to the one used by Berkshire Hathaway, which also measures its performance by NAV growth. Similarly, the management teams of the Fund's common stock holdings in Hong Kong as well as other holdings such as Investor AB and Brookfield Asset Management appear to both run their businesses and measure their performance with the goal of generating long - term growth in net asset value.

I shall write to you again when we publish our Annual Report on 31 October, 2010.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'Ian Lapey', with a stylized flourish at the end.

Ian Lapey
Co-Manager,
Third Avenue Value Fund

Third Avenue Small-Cap Value Fund



CURTIS R. JENSEN
PORTFOLIO MANAGER
THIRD AVENUE SMALL-CAP VALUE FUND

Dear Valued Shareholders:

We are pleased to present you with the Third Quarter commentary for the Third Avenue Small-Cap Value Fund UCITS ("The Fund"). A record of portfolio activity follows, along with a discussion of some key points we consider when selecting investments for our portfolios.

New Positions

Equity Securities

Broadridge Financial Solutions Inc.
Ingram Micro Inc.
MEMC Electronic Materials Inc.
Unifirst Corp.
Wilmington Trust Corp.

Positions Increased

Equity Securities

Ackermans & Van Haaren NV
Alamo Group Inc.
Alexander & Baldwin Inc.
Alico Inc.
Arch Capital Group Ltd.
Bel Fuse Inc.
Bristow Group Inc.
Bronco Drilling Co.
Brookfield Asset Management
Cimarex Energy Co.
Cross Country Healthcare Inc.
E-L Financial Corp.
Electro Scientific Industries
Electronics For Imaging
Encore Wire Corp.
Glatfelter Co.
HCC Insurance Holdings
Herley Industries
Imation Corp.
Investment Technology Group Inc.
JAKKS Pacific Inc.
JZ Capital Partners
Kaiser Aluminum Corp.
K-Swiss Inc.

Equity Securities (continued)

Lanxess AG
Leucadia National Corp.
Lexmark International
Liberty Media - Starz
National Western Life Insurance Co.
Parco Co. Ltd.
Park Electrochemical Corp.
Pharmaceutical Product Development Inc.
Pioneer Drilling Co.
PYI Corp Ltd.
Sapporo Holdings Ltd.
Sycamore Networks Inc.
Synopsis Inc.
Tejon Ranch Co.
Tellabs Inc.
Tidewater Inc.
TimberWest Forest Corp.
Vail Resorts Inc.
Viterra Inc.
Wacker Neuson SE
Westlake Chemical Corp.

Positions Eliminated

Genesee & Wyoming Inc.

DISCUSSION OF SIGNIFICANT QUARTERLY ACTIVITY

Management took advantage of generally volatile market conditions¹ during the most recent quarter to initiate, by varying degrees, five new positions in the Small-Cap Fund. Two of the larger additions, Broadridge Financial Common and Ingram Common, are discussed in some detail below. Two other new positions, MEMC Common and Wilmington Common, represent “toehold” positions, small positions that will likely remain relatively underweighted barring a significant change in valuation, reflecting both our views about the business risk attached to those companies (i.e., “high beta” investments) and our opportunistic investment approach. Market volatility combined with positive underlying business developments translated into price appreciation in a number of cases, allowing Fund Management to selectively reduce position sizes, with two holdings being eliminated altogether. In sum, we attempted to use the volatile conditions during the quarter to recycle capital from fully priced “merchandise” into more significantly discounted investments with attractive long-term prospects.

Broadridge Financial is a leading global provider of investor communications services and technology-based securities processing solutions. Broadridge had been added to Fund Management’s “inventory” of ideas following its spinoff in 2007 from Automatic Data Processing. Modest overvaluation and a significant debt load post spinoff deterred us from adding it to the Fund at that point. Two recent developments, however, caught our attention and compelled us to take a fresh look at the company. In addition to a considerable decline in its share price this year, the company announced its intention to exit a capital-intensive and money losing securities clearing business. In our view, disposal of the clearing business introduces a number of positive elements as it i) liberates a large chunk of previously committed capital; ii) further improves the balance sheet; iii) reduces overall business risk; and iv) under terms of the deal with the buyer, adds heft to a revenue stream in an area that management intends to grow. In addition we noticed a number of other positive developments since our original review, including a markedly improved balance sheet (i.e., debt reduction)

¹ One proxy for small-cap stocks, the Russell 2000 Index, fell from its peak in early May at nearly 20% to its low in a mere two months, only to retrace some of the fall late in the quarter.

and implementation of a shareholder friendly share repurchase program². Lastly, the business evidenced a fair degree of resilience, having held up reasonably well during the financial crisis. During the quarter, management closed the clearing business transaction, emboldening us to initiate our position. All along we have been attracted to the company's cash generating capabilities, relatively stable margins and dominate market shares in areas such as shareholder proxy communications and securities-related outsourcing services to the world's largest financial institutions -- characteristics that might even be attractive to a financial or strategic buyer.

On a *pro forma* basis, giving effect to the transaction, the company will have excess capital that ought to augment management's ability, given time, to grow the value of the business at above average rates, either through organic growth initiatives, acquisitions or, for example, continued share repurchases. Implying a 3% dividend yield, the Fund's cost basis equates roughly to the following metrics: an 8% to 9% free cash flow yield and 12 times to 13 times trailing earnings (as reported on a GAAP basis, or 11 times on an adjusted "cash" basis).

Fund Management had been familiar with Ingram Common, having previously owned it in the Fund. Ingram is the world's largest distributor of Information Technology ("IT") products and services and lies squarely in the heart of the technology "food chain." We view the company's shares as a conservative and technology-agnostic means of participating in the cyclically-tinged growth that generally characterizes the technology sector. Subsequent to our sale of the shares a little more than two years ago, we kept tabs on the company as part of our inventory. In the intervening period since our ownership, a number of things have happened. For one, the balance sheet has improved with regard to overall quality and strength. Specifically, two years ago all the goodwill was written off, there is no more off-balance sheet financing, and the company enjoys a net cash position of more than \$540 million (representing 20% of the company's market capitalization). Importantly, it appears industry competitive conditions have moderated. Despite operating on razor thin margins (think of it like a grocery store with different product shelf lives) the company has generally prospered, remaining nicely profitable in eight of the last 10 years.³ Tangible book value per share has compounded at roughly 10% annually during the past five years. The Fund's cost basis represents a modest discount to tangible book value (a very crude proxy for business value) and equates to approximately nine times to 10 times current earnings and six and one-half times 10-year average EBIT⁴. At these undemanding valuations, the share price would appear to have limited downside, and with ample financial flexibility, management has an excellent opportunity to return a fair amount of capital to shareholders on economically attractive terms in the form of share repurchases. Were the valuation to revert within the next year or two to its historic premium to GAAP book value, the Fund would realize a low-to-mid-teens type of return.

Uncertainty and Fixed-Income Fever

Ask 10 economists today about the likely course of the economy and you will probably get at least 20 different answers. It remains fashionable in the media to debate whether western economies are headed for a deflationary abyss or for runaway inflation, though no one knows the answers. With memories of the market collapse still fresh and so much current economic uncertainty it is, in some respects, no wonder that investors continue to take their savings out of U.S. equities and allocate them to the perceived safety of fixed-income instruments, particularly for government obligations.

² During its fiscal year ended June 30th management stated that the company had repurchased nearly 10% of the shares outstanding and that the board had authorized the repurchase of another 7% of shares.

³ The company's most recent loss, as reported under GAAP, occurred in 2008 when it wrote off for accounting purposes \$743 million of goodwill on the balance sheet. By our estimation, on an adjusted "cash" basis, Ingram remained highly profitable and generated more than \$550 million of cash from operations that same year, resulting in approximately \$470 million of free cash flow.

⁴ EBIT is Earnings Before Interest and Taxes, a way of considering a corporation's earnings power, excluding the effects of debt service and book taxes.

But will investors' seemingly high expectations for fixed-income returns, especially for government obligations, be met? "Fixed-Income Fever" has manifested itself in any number of ways:

- The current yield on U.S. 10-year notes, at 2.6%, hovers near multi-decade lows and near that level attained during the worst of the credit crisis. Two-year notes currently offer a yield of 0.50%.
- As reported in the *Financial Times*, according to Greenwich Associates, "In U.S. Treasuries . . . 20 percent of trades this year are accounted for by hedge funds, compared with just 3 percent last year."
- According to the Investment Company Institute, about \$185 billion was sent to bond funds through July 31st, the most on record (since 1984). Outflows from U.S. equity funds continue unabated. If current trends hold, 2010 will be the fourth year in a row where bond fund flows exceed those into equity funds.
- The average investment grade bond price stands at 110 cents on the dollar, the highest level in more than six years, according to Bank of America Merrill Lynch. The top 10 lowest-yielding U.S. corporate new issues in *history* have been sold in the last 14 months.
- Even municipal obligations have gotten in on the act. Spreads on U.S. municipal obligations relative to Treasuries now stand at or near record lows.

It is perplexing to think that investors/speculators continue to provide so much cheap capital to governmental issuers whose finances, generally speaking, can only be described as horrific. As one observer put it, "Borrow more to pay less, is still working brilliantly for the U.S. government." Perversely, lower interest rates make it easier for our government to ignore much needed structural change in the way it does business. We do not have a crystal ball that lets us look into the future and we shy away from predictions about the same. Within the broad fixed-income asset class, selective opportunities still exist, e.g. High Yield. But Fixed-Income Fever, particularly the strain that creates an insatiable desire for U.S. Treasuries, appears to represent an increasingly crowded trade, one that has the contrarian in me smelling a whiff of trouble. The price-appreciation of 10-year Treasuries, for example, has driven down yields so far that somebody buying them now has little reason to expect the returns enjoyed by investors over the last three, five or 10 years. When Treasury yields were last this low in the mid 1950's, the subsequent return for bonds was 1.9%, just barely ahead of inflation. Buyer beware: it seems there's not much gas left in the Treasury tank. Treasuries have nothing much behind them, except for the government as a very motivated seller. While politicians might pay lip service to the idea of putting the government's fiscal affairs in order, St. Augustine's plea "Lord, make me chaste, but not yet," better describes the motivating emotions at Treasury.

In stark contrast and as evidenced, I believe, by the companies the Fund purchased this quarter and the companies that comprise the Small-Cap portfolio, the Fund's holdings are generally characterized by the following characteristics:

- Modest to attractive growth in business values, values whose growth will likely exceed those returns currently available in fixed-income markets.
- Issuers with strong financial positions that, in many cases, provide a competitive advantage, insulate the company from capricious capital markets and add an element of optionality with regard to potential "resource conversion."
- Generally low expectations and valuations that reflect our parsimonious approach to investing.

Our approach to investing sets us against the direction of the herds more often than not. When investment funds were flowing strongly into equity funds, and specifically into Small-Cap strategies, we closed the Fund to most new investments because the stampede into small company stocks left us with a dearth of strong companies that we could purchase at the kind of discount that we believe provided a level of risk protection. Now, with money flowing into fixed income, and the lion's share going to "riskless" government debt, we're finding overlooked opportunities in equities. In that sense, we see Fixed-Income Fever as an opportunity. We tend to find our best long-term investments when the rest of the market is looking the other way.

I look forward to writing you again in when we publish our Annual report dated 31 October, 2010. Thank you for your continued loyalty and support.

Sincerely yours,

A handwritten signature in cursive script that reads "Curtis R. Jensen".

Curtis R. Jensen
Portfolio Manager,
Third Avenue Small-Cap Value Fund

Third Avenue Real Estate Value Fund



MICHAEL H. WINER
PORTFOLIO MANAGER
THIRD AVENUE REAL ESTATE VALUE FUND



JASON WOLF
PORTFOLIO MANAGER
THIRD AVENUE REAL ESTATE VALUE FUND

Dear Valued Shareholders:

We are pleased to present you with the Third Quarterly commentary for the Third Avenue Real Estate Value Fund UCITS ("The Fund"). A record of portfolio changes follows, as well as a discussion of some of our major holdings and the broader economic environment in which we operate.

New Positions

Equity Securities

Klepierre
Lennar Corp.
ProLogis European Properties
Unibail-Rodamco SE
Weyerhaeuser Co.

Options

ProLogis 8/12/2010 P 10
ProLogis 10/16/10 P 10
Lennar Corp. U.S. 8/21/10 P16
Lennar Corp. U.S. 8/21/10 P17
Public Storage U.S. 9/18/10 P75
Weyerhaeuser U.S. 7/17/10 P41

Positions Increased

Equity Securities

Tejon Ranch Co.
Sun Hung Kai Properties Ltd.
ProLogis
Berkeley Group Holdings Plc.
British Land Co. Plc.
Songbird Estates Plc.
Henderson Land Development
Hammerson Plc.
Hang Lung Properties Ltd.
Capitaland Ltd.
Wheelock & Co. Ltd.

DISCUSSION OF SIGNIFICANT QUARTERLY ACTIVITY

During the quarter, Fund Management took advantage of the market's volatility and the Fund's cash reserves to initiate several new positions. The Fund invested in the common stocks of Continental European real estate companies as dislocations in the European equity markets brought some stocks that we'd been following for a long time down to attractive prices. The Fund also invested in the common stocks of two companies with ties to the U.S. housing industry and deployed some of its cash reserves to pursue a low-risk option strategy that makes sense as long as market volatility remains high.

Unibail is a French REIT that owns the largest and most productive collection of mall properties in Continental Europe. While the outlook for retail sales in Europe is uncertain, the long-term prospects for Unibail's market-dominant assets remain promising given the strict barriers to entry in the company's key European markets (e.g., France). Unibail also has one of the strongest financial positions among global real estate companies. This provides the company with the flexibility to access the capital markets on very attractive terms resulting in a cost of capital advantage. For instance, Unibail was one of the few Western real estate companies that did not have to raise dilutive capital during 2008-2009 and, recently, the company issued five-year notes with a coupon below 3.8%. While the company's management team maintains a very conservative stance, they also remain committed to optimizing value for shareholders. As a result of recent sales of non-core properties, the company's board recently declared a special dividend of €20.00 per share (totaling approximately 15% of its equity capital). After making this distribution, Unibail's debt balances will remain at low levels (approximately 40% debt-to-asset value) while the company retains adequate capital to continue creating additional value for shareholders by building out its well-located development projects and further solidifying its dominant European mall platform.

Klepierre is a French REIT that owns a portfolio of mall properties in Continental Europe. While Klepierre's mall portfolio is not on the same scale as Unibail's dominant platform, the company owns an additional 200 supermarket-anchored centers located in dense urban areas, which gives the portfolio very defensive characteristics and provides very resilient cash flows. To further bolster its portfolio, the company made a sizable acquisition of retail malls in the Nordic region (Norway, Sweden and Denmark) during 2008. Approximately 20% of the company's asset base is now located in the Nordics. While these centers add an additional element of safety to Klepierre's portfolio given the varied economic drivers and currencies of these countries, the assets also present a substantial opportunity for the company to increase cash flows since tenant occupancy costs as a percentage of sales are well below other European markets. Through more active management, the company expects to be able to increase rents in the Nordic portfolio. Additionally, the company expects to increase NAV by completing its meaningful development pipeline despite lackluster prospects for near-term growth in Europe.

The Fund opportunistically initiated small positions in Unibail Common and Klepierre Common during a period of turmoil in Europe when the equity markets and the Euro both declined to recent lows. Both stocks were acquired at discounts to net asset value ("NAV") with the expectation that if the near-term situation in Europe worsened, there would likely be an opportunity to acquire more at cheaper prices. Since acquiring the stocks, Unibail Common and Klepierre Common have appreciated so it remains to be seen if the Fund will get an opportunity to buy more at the "right" price. At quarter-end, Unibail Common and Klepierre Common represent 1.3% and 1.7% of the Fund's net assets, respectively.

ProLogis European Properties ("PEPR") is a closed-end fund that was listed by U.S.-based REIT ProLogis in 2006 (ProLogis owns 33% of PEPR Common). PEPR owns 230 industrial properties comprising more than 50 million square feet of space in Continental Europe and the UK. The portfolio is 94% leased (primarily to credit tenants) and is predominantly located in key distribution markets within France, Germany and the UK. Fund Management has monitored PEPR for several years since it represents a meaningful percentage of ProLogis' NAV. While PEPR was known to have a high-quality collection of industrial properties in Continental Europe, it was never of much interest to Fund Management since (a) PEPR Common has historically traded in-line with NAV, (b) the assets are stabilized industrial properties with limited growth potential and (c) the company distributed nearly all of its free cash flow, which limited value-creating activities. In 2009, PEPR's portfolio was revalued downward and the company was forced to sell assets, issue dilutive capital and cancel its

dividend to stabilize its financial position. PEPR's financial position is now greatly improved and its assets continue to generate solid cash flows. With its improved financial position, the company should soon receive an investment grade credit rating, which could reduce its interest costs and enable the company to reinstate its dividend. This would likely act as a catalyst to close the 30% discount between the trading price of PEPR Common and its stated NAV. ProLogis recently increased its stake in PEPR from 25% to 33%. If the discount to NAV persists, it is not inconceivable that ProLogis would be interested in acquiring 100% ownership at a premium to the market price.

Lennar's and Weyerhaeuser's businesses are both directly tied to U.S. residential home starts. While the timing for a rebound in new home sales from existing levels (multi-decade lows) is highly uncertain, both companies have corporate activities taking place that Fund Management expects will increase shareholder value while we wait for the supply-demand picture in the U.S. to resemble something closer to what could be considered "normal".

Lennar is the fifth largest homebuilder in the U.S., with a large presence in Texas, Florida and California. Fund Management has monitored the company and its management team closely for many years. The last few years have clearly been difficult for the industry, but Lennar has battled through the economic headwinds and repositioned the company to benefit as conditions improve. When they do, Lennar should be one of the most profitable builders – having already marked down its inventory to low values while opportunistically acquiring a number of new home sites in key markets (e.g., California) over the past few years at bargain prices. It is uncertain when Lennar will start booking profits from its homebuilding business, but it has the cash to ride out current conditions and, in the meantime, it has reinvented its former distressed real estate business under the Rialto banner. As background, in the early 1990's Lennar formed LNR as a business line to invest in distressed loans. The subsidiary was eventually spun-off to Lennar shareholders in 1997 and went on to become the largest special servicer of commercial loans. LNR common stock was one of the largest holdings of the Third Avenue Real Estate Value Fund (the U.S. mutual fund that is run according to the same strategy as the UCITS) from 1998 to 2005 when it was acquired by Cerberus for \$4.4 billion (representing a large premium for shareholders). Rialto, which is run by Jeff Krasnoff, the former CEO of LNR, is undertaking the same types of investments that LNR originally pursued. In a recent transaction, Rialto took a stake alongside the FDIC in a \$3.0 billion distressed loan portfolio. As Rialto begins to realize profits from some of these opportunistic investments and the company's homebuilding operations return to profitability, Lennar is positioned to once again create meaningful value for shareholders. The Fund acquired Lennar Common at \$17.70 per share (representing a discount to adjusted book value). In addition, the Fund sold out-of-the-money put options expiring on August 21, 2010 with strike prices of \$16 and \$17. Assuming Lennar Common is trading below \$16 at the expiration date, the Fund will acquire additional shares at an average cost of \$14.72 per share (including the premiums received).

Weyerhaeuser is a U.S. based forest products company that is refocusing its business on its key asset: a 5.8 million acre timber portfolio with 2.1 million acres of prime timberlands in the Pacific Northwest. The company's timber assets are considered to be the highest quality portfolio on a global basis. Over the past few years, management has divested its containerboard and fine paper businesses and most recently announced that it would elect REIT status to become more tax efficient. Long term, the benefits of making this conversion are quite favorable as the company will generally avoid corporate income on that portion of the capital gain or ordinary income from its REIT operation that it distributes to its shareholders. Furthermore, dividends from timber REITs are largely treated as long-term capital gains as opposed to ordinary income (like most REIT dividends). In order to convert to a REIT, Weyerhaeuser is required to distribute its retained earnings and profits via a special dividend – which is estimated to be \$5.6 billion. The distribution is scheduled to be paid on September 1st and will be paid 90% in stock and 10% in cash. After Weyerhaeuser completes the REIT conversion process, it will be on the same playing field as its key competitors, e.g., Plum Creek and Rayonier, which should assist in eliminating the meaningful discount at which the company's shares currently trade relative to its NAV and peers. Fund Management believes the company's NAV could increase considerably when U.S. housing starts pick up from current levels. Not only will the company's prime timberlands benefit from realizing greater harvest levels and higher prices, but the company's other businesses—such as the wood products and homebuilding business—would also meaningfully contribute to the company's profitability despite not being assigned any value in the public markets at current

prices. The Fund initially acquired Weyerhaeuser Common at an average cost of \$40.69 per share. In addition, the Fund sold out-of-the-money put options expiring on July 17, 2010 on with a strike price of \$41, receiving a premium of \$2.58 per share. On the expiration date, Weyerhaeuser Common closed at \$40.50 (below the strike price) and shares were put to the Fund at the \$41 strike price. The Fund's net price, including the premium received, was \$38.42 per share.

In addition to the new positions noted above, the Fund put some of its cash reserves to work as market volatility presented the opportunity to add to existing positions at discounted prices, including Berkeley Common, Capitaland Common, Hammerson Common, Henderson Land Common, Songbird Common and Tejon Common. The increase in Tejon Common was the result of the Fund subscribing to a rights offering in which the company raised \$60 million by selling common shares. In the rights offering, the company issued transferable rights to all shareholders, giving each holder the right to subscribe pro rata to purchase shares at \$23, which represented a discount to the market price when the offering was announced. Each shareholder that fully subscribed was also entitled to oversubscribe for additional shares at \$23 (the company issued total rights for \$50 million and had the option to fill oversubscriptions for up to an additional \$10 million). The Fund exercised all of its rights and oversubscribed for additional shares. The offering was very well received and oversubscribed by more than 5 million shares (\$115 million). Fund Management fully supported the company's efforts to conduct the rights offering, which was done without the assistance or expenses normally incurred by companies that retain investment banks to raise equity. Assuming a typical bank underwriting fee of 7%, the company saved about \$4 million. Fund Management believes that more U.S. companies should consider rights offerings instead of underwritten public offerings as they are far less costly (no commissions paid to bankers) and they allow all shareholders to avoid being diluted – they can either sell their rights in the open market or buy additional shares at the offering price (usually at a discount to the trading price) and maintain their percentage ownership.

HEADS, I WIN - TAILS, I WIN

In addition to selling the put options on Lennar, the Fund sold:

- Public Storage September 2010 Puts for a premium of \$2.78 per share. On July 30, 2010 Public Storage common closed at \$98.12.
- ProLogis August 2010 \$10 Puts for a premium of \$0.51 per share.
- ProLogis October 2010 \$10 Puts for a premium of \$0.70 per share.

The Fund has taken advantage of its large cash position and increased volatility in the stock market by selling out-of-the-money put options on common stocks that it would be happy to acquire – but at substantially lower prices than available in the market. Increased market volatility had caused option premiums to rise, creating an opportunity for fundamental value investors to “pick their price” for stocks that they would like to own and receive substantial premiums for agreeing to buy them at a lower price on a future date. During the quarter, Fund Management employed this strategy on the common stocks of several companies, but only after completing its rigorous fundamental analysis and determining a price that represents a substantial discount to NAV. In the past, Fund Management would perform the same underwriting exercise and often would not get a chance to buy the stock because the “buy price” was well below the current market price. In addition, prior to 2008, market volatility was much lower and option premiums were correspondingly lower – making this strategy far less attractive.

As noted in the recent Letters to Shareholders, the Fund has been carrying larger-than-normal cash balances in order to take advantage of opportunities that may arise in global real estate securities. Those opportunities have been slow to materialize, but as evidenced by the recent quarter's activity, the Fund's cash reserves are proving to be useful. Without its significant cash reserves, the Fund would not be able to employ the above noted option strategy. Selling out-of-the-money put options would be a highly risky strategy if the Fund did not have the ability to purchase all of the securities it could potentially be obligated to on or before the expiration of the put options. At quarter-end, the Fund had approximately 13.8% of assets in cash and the potential obligation of approximately 4.3% of Fund net assets to buy securities. In Fund Management's view, the option strategy is advantageous for two reasons: (1) if the options expire out-of-the-money, the Fund earns the premium which represents a very attractive yield on cash that is otherwise earning close to zero; and (2) if the shares are

put to the Fund, the Fund is acquiring the shares below its "buy price" after netting the premiums against the strike price.

One might argue that the Fund is incurring substantial risk by selling put options to earn this theoretical yield. Fund Management believes the risks are minimal because we have done a thorough analysis of each security and the Fund will ultimately benefit whether the options are exercised (and the security is purchased) or they expire out of the money (and the premium is earned). Fund Management recognizes the risk that an exogenous event (e.g., fraud, natural disaster, major market dislocation) could cause the price of the underlying security to drop precipitously and the Fund could end up buying the security at a substantial premium to its market price. However, the Fund assumes the same risk with every security it owns, not just those it may be obligated to buy in the future. This risk is mitigated by Fund Management's fundamental investment process where the first objective is to avoid permanent impairment of capital.

The Fund had one of its most active quarters in recent history, primarily because of its flexibility to employ a variety of strategies that fit within our framework of "value investing". These strategies include:

- Holding cash when securities cannot be acquired at attractive prices;
- Invest anywhere geographically without regard to benchmarks;
- Invest anywhere in the capital structure (e.g., equity or debt);
- Invest in securities of real estate operating companies and real estate-related companies (i.e., not limited to REITs);
- Invest in distressed debt including securities of companies in bankruptcy and taking an active role in the restructuring process;
- Providing capital directly to companies by investing in debt or equity securities that will be used to restructure debt or fund growth initiatives;
- Utilize low-risk options including selling covered calls and out-of-the-money puts;

The Fund consists of a portfolio of securities (primarily common stocks) of real estate companies that, in Fund Management's view, represent the "best in class" real estate companies around the globe. But we don't stop there. As part of our ongoing process, we keep an "on-deck" list of companies that we have fully analyzed and are candidates for inclusion in the portfolio – only at lower prices. The Fund's recent investments in Continental Europe are examples of securities that were on our buy list – and we finally got the opportunity to initiate positions. We also took advantage of market volatility by selling put options that may give the Fund the opportunity to acquire securities on the buy list at or below our buy price. Unfortunately, there are several excellent companies on the list in which the Fund may never become an owner due to Fund Management's price consciousness (as opposed to outlook consciousness, like the vast majority of stock market participants). When the near-term outlook turns negative, that price consciousness and our contrarian, long-term view may ultimately result in more buying opportunities. In the meantime, we will be patient, preserve cash and continue to utilize all of our available tools to enhance long-term returns for Fund shareholders.

We look forward to writing to you again when the fiscal year ends on 31 October, 2010.

Sincerely,



Michael H. Winer
Co-Manager
Third Avenue Real Estate Value Fund



Jason Wolf, CFA
Co-Manager

Third Avenue International Value Fund



AMIT B. WADHWANEY
PORTFOLIO MANAGER
THIRD AVENUE INTERNATIONAL VALUE FUND

Dear Valued Shareholders:

We are pleased to present you with the Third Quarter commentary on the Third Avenue International Value Fund UCITS ("The Fund"). A record of portfolio activity follows as well as a discussion about selected securities in the portfolio.

New Positions

Equity Securities

Atrium European Real Estate
Dundee Precious Metals Inc.
Guoco Group Ltd.
Nexans SA
ProLogis European Properties
Resolution Limited Rights
Seino Holdings Corp.

Positions Increased

Equity Securities

Alma Media Oyj
Andritz AG
Catalyst Paper Corp.
EnCana Corp.
GlaxoSmithKline Plc.
Leucadia National Corp.
Netia SA
Resolution Limited Common Stock
Sampo OYJ
Tokio Marine Holdings
United Microelectronics Corp.
Viterra Inc.
WBL Corp Ltd.
Yuanta Financial Holding Co. Ltd.

Positions Reduced

Equity Securities

Antarchile SA
LG Corp.

Positions Eliminated

Equity Securities

Brit Insurance Holdings NV

DISCUSSION OF SIGNIFICANT QUARTERLY ACTIVITY

Review of Quarterly Activity

Renewed concerns about the health of a number of the world's largest economies contributed to market turmoil and presented the Fund with opportunities to invest in both new and existing names. These investment opportunities, some of which are further discussed below, were disproportionately found in Europe.

During the quarter, the Fund established a new position in the common stock of Atrium European Real Estate Ltd. ("Atrium"). Atrium is one of the largest developers and operators of retail properties in Central and Eastern Europe, with the bulk of its assets located in three countries: Poland, Czech Republic and Russia. While the company had suffered from poor corporate governance under the previous management team, its ownership structure was transformed during the summer of 2008 when the old controlling shareholder was bought out and new management came in. The new management team undertook a large cost reduction program, re-evaluated all development projects and converted a significant portion of the company's debt into equity; thus, putting the company on sensible financial footing.

Atrium is focused on shopping centers which are primarily anchored by supermarkets. Customer traffic in these properties tends to be driven by everyday purchasing needs, where the mix of business has proven to be resilient even during the recent recession. Barriers to entry are high in this business and recently became even higher, due to lack of financing for the development of retail properties. A number of real estate companies focused on Central and Eastern Europe either entered bankruptcy or had to restructure their debt, and were forced to either scale down or freeze their development plans. Thus, the overall growth in Central and Eastern European retail supply is likely to remain subdued for several years to come.

Atrium stands out in its field for its unusually strong balance sheet, with net debt representing less than 2% of total assets. The company is actively searching through the rubble of distressed property markets for hidden gems; it has plenty of available financial firepower and development expertise to take on projects abandoned by weaker competitors. The current valuation implies a double-digit capitalization rate, while ignoring potentially attractive investment opportunities available to the company in Central and Eastern European markets.

Also during the quarter, the Fund initiated a position in Nexans S.A. ("Nexans"). Nexans is a Paris-based global leader in the business of manufacturing cables for specific applications in a number of industries – including energy, telecommunications, oil and gas, wind and solar power and railway applications – as well as for building applications and local area networks.

Nexans derives nearly half of its revenue from its infrastructure segment which, for example, manufactures overhead, underground and subsea cables for energy transmission and distribution. This part of the business has clouded the short-term outlook for the company, as Nexans' share price has suffered recently from association with recent European Union sovereign turmoil. But, we believe, the punishment inflicted on Nexans' share price has been excessive for a number of reasons. As measured by its customer location, Nexans derives less than half of its income from European customers, while of growing significance are Nexans' operations in a variety of emerging markets, which at present represent approximately one quarter of Nexans' business. Somewhat predictably Nexans' emerging markets operations have been among its fastest growing and best performing.

Even if one were to remain focused on Nexans' European exposure, it is important to consider the heterogeneity of the E.U., which is to say that not all European countries are in similarly dire straits (e.g., Germany as compared to Greece). In Nexans' case, its largest European exposures derive from France and Germany. Also worth noting is that Nexans began addressing some stress in its European operations as early as 2009, when the company embarked on a restructuring plan which closed a meaningful amount of

inefficient production capacity and undertook the difficult, but necessary, task of a considerable headcount reduction in its European workforce. A new-found sense of importance with regard to its management of working capital has also been an important factor in Nexans' restructuring plans and our attraction to the investment.

The above notwithstanding, an important element of our investment in Nexans is the cushion provided by the company's considerable financial strength. Another attraction is the current valuation of Nexans which imputes quite a modest multiple of the company's current profitability, which reflects considerable headwinds owing to the economic environment. There is potential for Nexans to significantly improve its operating performance, both by virtue of its restructuring plan and due to more reasonable operating conditions in several important markets.

ProLogis European Properties ("PEP") is a Netherlands-listed closed-end fund formed in 1999 to hold the European industrial properties of the U.S. REIT ProLogis. PEP's property portfolio comprises 230 high quality properties with an average age of less than eight years, and aggregating in excess of 50 million square feet. The portfolio is 94% leased and has an average lease term of 5.4 years with counterparties of good credit quality. The largest countries, by market value of property owned in this portfolio, are France, the U.K., and Italy.

The opportunity to invest in this collection of assets at a meaningful discount to Net Asset Value ("NAV") presented itself as a result of a sequence of events, starting with the properties being revalued downwards in 2009, which resulted in PEP being forced to sell assets, issue fresh capital and cancel its dividend in order to stabilize its financial position. While these actions, in the short term, negatively affected the stock price, they have strengthened the financial position, which should increase the possibility that the company's credit rating might be upgraded at some point in the future. This, in turn, would reduce financing costs and increase the likelihood that the dividend might be reinstated.

Switching gears, in recent letters we have discussed why we believe that Resolution Ltd. common stock represents an attractive investment opportunity. To briefly recap, Resolution is a vehicle created to acquire and consolidate U.K. life insurance companies, with the aim of creating value from operating, financial, and tax synergies, delivered by a management team with a solid track record of doing just that.

While Resolution's first investment, the acquisition of life insurance company Friends Provident, was completed at a very attractive valuation (greater than a 30% discount to run-off or liquidation value), other than cost reduction the deal by itself did not provide any opportunities to realize synergies, as Resolution did not own any other operating businesses at that point. Truly meaningful value creation had to wait for the next acquisition, and the wait proved to be longer than the impatient stock market could tolerate. Despite frequent rumors about Resolution's interest in numerous potential targets – stoking market excitement at various points along the way – the company's management team patiently waited for what it believed to be the right opportunity. Disappointed short-term speculators lost interest and the stock price drifted lower and lower, allowing us to add to our position at increasingly attractive prices.

The wait ended in the middle of June 2010 when Resolution announced that it would buy 90% of the U.K. life insurance subsidiary of AXA, the French-based global insurance conglomerate. After the acquisition, Resolution will become the third largest life insurance company in the U.K., with particular strength in corporate pensions. Preliminary due diligence revealed potential cost synergies of 16% of the combined company's cost base, mostly coming from streamlining sales, customer service, operations, and IT infrastructure. Further financial and tax synergies are possible. The acquisition was priced at a 25–30% discount to run-off value, a seemingly attractive price which does not include the value of synergies or the expected capital release of almost one-third of the acquisition price.

In order to finance the acquisition, Resolution announced a rights issue that closed shortly after the end of the quarter, which raised an amount greater than the company's market capitalization prior to the announcement. Rights issues, though not widely utilized in the U.S., are more common in Europe and can be attractive ways to raise money cheaply without diluting existing shareholders. Resolution made it clear from the very launch of the company that rights issues were the preferred method of paying for acquisitions, and the company's large shareholders kept cash reserves available for just this eventuality.

As a result of the acquisition and the rights issue, the size of the Fund's investment in Resolution has increased significantly following the close of the rights issue. Furthermore, the company continues to look for other acquisition candidates, and indicated that another deal is likely within the next 18 months. Given the management team's extensive and successful experience in this field, we are comfortable with the company's pace of acquisitions and integration.

A notable investment disposed of during the quarter was the Fund's holding in Brit Insurance Holdings NV ("Brit"). We have been long-time holders of the common stock of Brit, indeed even participating in the company's recapitalization after the losses resulting from the attack on the World Trade Center on September 11, 2001. The basis of our patience was, *inter alia*, the company's general conservatism, for example in terms of the type and volume of business written (in relation to its capital); its reserving practices; its attention to counterparty risk and balance sheet integrity, etc. To some investors this conservatism meant an inefficient use of capital, lower return on equity and the like; this provided us with an attractive valuation at which to acquire Brit Common. In contrast, our view of the company's aversion to the "pedal to the floor" approach to underwriting insurance meant that it could be buffeted by considerable adversity before its survivorship would be in question.

The recently reported period gave us a snapshot of the company's prospective underwriting plans and it appears that this historic conservatism is fading and might well be a matter of the past. The company has been writing increasing amounts of insurance and reinsurance – in a market where the rate environment has been deteriorating – on a fixed capital base, thereby exposing the shareholders' capital to risks which might not yield commensurate returns. Brit's stock price rose on news that Brit had been approached by a potential acquirer of the entire company. This provided us the opportunity to sell our position at a higher price than we might have otherwise realized.

A Primer on Rights Issues

One of the larger investment commitments made by the Fund during this quarter was subscription to the aforementioned Resolution Ltd. rights issue. As a result of the completion of the rights issue after the quarter close, Resolution raised funds aggregating almost 1.5 times its existing market capitalization by offering existing investors an opportunity to acquire the equity being issued on a pro-rata basis. Resolution's intent to raise capital (very likely via rights issues) for prospective acquisitions had been signaled upon the company's initial public offering. Given the unusually large size of this transaction and the general unfamiliarity of most investors with rights issues, this note is intended to provide the reader a brief background on the matter.

Rights issues can best be described as placements of shares open to all existing shareholders. In a standard rights issue transaction, each shareholder as of the record date receives a pro rata number of "rights" or warrants to buy newly issued shares (or any other security) at a predetermined exercise price (usually at a large discount to the current price). The shareholder then decides whether to exercise the rights by buying the newly issued shares, or to sell the rights instead. The subscribing shareholders maintain their proportionate holding in the company.

As long as the rights are tradable, pre-emptive rights issues are not coercive, as shareholders not willing to contribute additional capital to the company can sell their rights and realize the economic value of their holding via an arbitrage market that develops and offers bids close to intrinsic value of the rights. Non-tradable rights, however, are coercive, as shareholders who do not participate will see the value of their stake diluted. Non-preemptive rights issues (i.e., those that are not available on the same terms to all existing shareholders) can also act against the interests of minority shareholders who have been excluded from the offering; when discounted rights are issued to a related or connected party, outside shareholders get diluted.

As long as the rights issue is priced at a meaningful discount to the stock price, and the rights are tradable, there is little risk of failing to raise the required amount. While rights issues are often underwritten by investment banks and/or backstopped by cornerstone investors, their capital commitments are rarely drawn upon should the exercise price be set at an appropriate

level of discount. Even in the depths of the financial crisis, rights issues by troubled U.K. banks, such as Royal Bank of Scotland plc, saw 95–97% participation rates.

In North America, rights issues are relatively uncommon. We suspect that part of the reason for this is the fact that investment banks collect smaller fees on rights issues; therefore, investment bankers tend to deploy their considerable persuasive abilities to steer companies toward private placements which are generally more lucrative from the bankers' perspective. Another bias against rights issues in North America is the perception that only distressed companies raise money in this manner, because their investment bankers cannot find anyone to subscribe to a private placement.

North American investment bankers also peddle the myth that rights issues are coercive, which is simply not the case for preemptive, tradable rights issues. In fact, the often used alternative, a private placement at a discount to market price (and often to net asset value), is much more damaging to existing shareholders who see their stake diluted without ever having been offered a chance to participate in the fundraising.

The Fund has, over the years, participated in a number of rights offerings that were used to raise funds for a variety of reasons, including refinancing of debt (WBL Corp. in 2009), strengthening the balance sheet (Rubicon Ltd. in 2010), and paying for acquisitions (Catalyst Paper for the purchase of the newsprint mill in Snowflake, Arizona in 2008). Thus, the latest offering by Resolution is not an unusual event, and we would expect further such transactions in the future.

I look forward to writing to you again when we publish our Annual Report for the period ending 31 October, 2010.

Sincerely,

A handwritten signature in black ink, appearing to read 'Amit Wadhwaney', with a stylized flourish at the end.

Amit Wadhwaney
Portfolio Manager,
Third Avenue International Value Fund