



Third Avenue Value Fund

Third Avenue Small-Cap Value Fund

Third Avenue Real Estate Value Fund

Third Avenue International Value Fund

SEMIANNUAL PORTFOLIO MANAGER COMMENTARY

30 April 2010

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Founder's Letter



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

It is difficult to function as a value investor unless the value analyst has a firm grasp of economic reality. It is equally difficult to promulgate intelligent financial regulations unless the sponsors of the regulation have a firm grasp of economic reality. Neither the general public, nor our political leaders, seem to have much of a grasp of economic reality, at least when it comes to dealing with troubled financial institutions.

I recently finished reading the book, *Freefall* by Joseph E. Stiglitz, an eminent economist. It certainly seems obvious from reading Stiglitz's prose that economists, whether left wing or right wing, have little conception in certain important areas of what is really involved in rehabilitating troubled companies, or what are the uses and limitations of financial accounting. In this letter, I discuss eight areas of financial misunderstanding:

- 1) Rehabilitation of troubled entities can be accomplished via three approaches, either alone or in concert: recapitalizations; monetization or liquification of certain assets, (i.e., liquidations); and capital infusions.
- 2) "Too Big to Fail" is a phony concept.
- 3) In the aggregate, debt is never repaid. It is refinanced and expanded by those borrowing entities which remain credit-worthy.
- 4) The private sector and government are in partnership whether they like it or not. The private sector is part of the problem and part of the solution. Government is part of the problem and part of the solution.
- 5) Wall Street professionals and corporate executives are all in the business of creating moral hazards. Eliminate moral hazards and you eliminate entrepreneurship, creativity, and much of superior management performance.
- 6) Taxpayer bailouts are a phony concept, stretching beyond credibility the concept of substantive consolidation. If a government provides financing at a loss to private sector entities, then it is the government providing bail-out funds, not taxpayers.
- 7) A revolution in corporate reorganizations and liquidations may have occurred in 2009 when General Motors, Chrysler, and CIT reorganized speedily and relatively cheaply through controlled Chapter 11 reorganizations. No longer do large, important companies necessarily have to be reorganized in uncontrolled Chapter 11s where administrative expenses can run into the hundreds of millions to billions of dollars. Also, most uncertainties about what a reorganization might entail can be resolved before a filing takes place rather than at some indeterminate time in the future.
- 8) Strict regulation is essential if most financial institutions are to function well.

How to Rehabilitate Entities

There are three ways of rescuing troubled companies so that these companies have odds in their favor that they can be made feasible going forward:

- 1) Reorganize – i.e., recapitalize
- 2) Liquidate – that is, convert assets to other uses and/or other ownership and/or other control
- 3) Make capital infusions into the business entity. Sometimes capital infusions are made by the private sector. Sometimes governments have to make the capital infusions because no funds are available from the private sector. This occurs at the all too frequent times when private markets freeze-up because these markets, for these purposes, are notoriously capricious and grossly inefficient. All sorts of businesses, especially most financial institutions,

need continuous access to capital markets. Capital infusions are their lifeblood. Sometimes the infusions have to be supplied by governments.

To economists, capital infusions by governments are known pejoratively as bail-outs. It is not necessarily so. It certainly is not so if the government earns a reasonable profit from the capital infusion and/or otherwise obtains productive concessions from the entities which receive the capital infusion. In many recent cases – Lehman Brothers, AIG, Citigroup, Fannie Mae, Freddie Mac – it would have been extremely difficult, if not impossible, to either reorganize or partially liquidate each company in order to rehabilitate it. This was the case whether the rehabilitation would have taken place through voluntary exchanges or by seeking court protection. Voluntary exchanges frequently do not work since, in the U.S., no creditor can be compelled to give up a right to a money payment unless the individual creditor so consents, or a Court of competent jurisdiction imposes an “automatic stay” on payments. Seeking Chapter 11 Relief in the U.S. (or its rough equivalent from a State Insurance Department), might not contribute to an effective rehabilitation since many assets of troubled issuers, e.g., derivatives, do not deliver to the troubled issuer the benefits of the “automatic stay”. Thus, as if almost by default, the preferred method for rehabilitating troubled financial institutions in 2008-2009 was capital infusion by the government and government agencies.

The basic problem with the various government stimulus packages certainly has nothing to do with the “taxpayer bailouts” or whether or not the returns to the government agencies from providing the financing result in an accounting profit. Rather, the problems revolve around *quid pro quos*. There was an apparent failure of the government to negotiate terms for the capital infusions which might have compelled various financial institutions in return for the government’s capital infusions, to undertake actions which would have been beneficial to the economy even though they entailed realizing losses for the financial institutions.

For example, one *quid pro quo* could have been the required restructuring of large amounts of underwater residential mortgages held as assets by the financial institution receiving the capital infusion. Another *quid pro quo* might have revolved around counterparty risk inherent in derivatives, e.g., Goldman Sachs, under the threat of AIG insurance subsidiaries entering state supervised conservatorship, might have been coerced into compromising its claims as a policyholder of credit default swaps. Admittedly such “strong-arm” tactics probably were politically unfeasible. However, I would bet that if it were private, profit seeking entities negotiating the terms for capital infusions into troubled companies, lots of “strongarm” compulsion would have existed. *Quid pro quos* would have occurred.

“Too Big To Fail” Is a Phony Concept

Failure of a financial institution occurs when the company’s common stockholders are wiped out, or almost completely wiped out, whether that holding company is a bank holding company, an insurance holding company, a broker-dealer holding company or another type of holding company. Thus, in 2008 and 2009 many giant financial institutions did, in fact, fail. Such failures included AIG, Citigroup, Lehman Brothers, Fannie Mae, Freddie Mac, Bear Stearns, GMAC and Countrywide Financial. With the possible exception of Lehman Brothers, all of the above-named failed companies are still in business.

Those inexperienced in rehabilitating companies do not really mean “Too Big To Fail”; they mean “Too Big to Be Reorganized or Liquidated in an Uncontrolled, Contested Proceeding.” The solution to preventing Lehman-type debacles seems not to be to restrict the size of financial institutions, but rather to set in place mechanisms whereby financial institutions large and small – can be reorganized, if troubled, via pre- packaged, pre-negotiated Plans of Reorganizations (“POR”) where relevant government regulators have a strong influence on what the POR will be. The reorganization of General Motors, Chrysler and CIT, all accomplished after less than sixty days in court, may have set a very good precedent for where major U.S. reorganizations ought to go.

In some countries, the existence of giant financial institutions does not seem to cause a problem, Canadian finance seems to function extremely well, dominated by five super-large commercial bank holding companies.

Most financial institutions need relatively continuous access to capital markets to refinance short-term indebtedness of all sorts. As such, even well-managed companies can be in trouble when markets “freeze up” as they did in 2008. Mechanisms ought to be in place to provide capital, and/or expeditiously reorganize these companies which are reasonably well managed but lack access to capital markets. Badly managed companies ought to be permitted to be sick – that is go out of business either through liquidation or the reorganization process. This is the case regardless of the size of the enterprise. The thing that ought to be avoided is uncontrolled reorganizations and liquidations; these are inordinately expensive and inordinately unpredictable.

In the Aggregate Debt Is Never Repaid

While individual credit obligations have maturity dates, dynamic entities in most instances, and in the aggregate, never repay debt. Economies as a whole, including the U.S., almost never repay aggregate debt. Rather, such debt is refinanced and expanded. This can comfortably be done as long as the borrowing entities maintain, or achieve, credit worthiness. Maintaining or achieving credit worthiness is not just a function of how much has been borrowed, and on what terms, but at least equally important, what were the “Use of Proceeds” – productive or wasteful?

Insofar as the use of proceeds creates wealth both long term and short term, the borrowing entity will remain credit-worthy. Insofar as little or no wealth is created through the use of proceeds, most borrowing entities are doomed to default on their money obligations, sooner or later. Creating wealth is akin to the concept of the Multiplier, originated in the 1930s by the noted economist, John Maynard Keynes.

Of course, many use of proceeds by the private sectors (see the housing bubble and many leveraged buy-outs) and governments (see the Iraq War) are largely, or completely unproductive. Yet, it is my prejudice that the country is better off insofar as increases in borrowing are undertaken by the corporate sector rather than governments or consumers. Because they are governed by a profit motive, expenditures by corporations seem to have better prospects for achieving high multipliers than would be expenditures by government or consumers. This by no means connotes that government should not borrow and spend. The economy just would not function if this were the case.

Governments and the Private Sector are in Partnership Whether They Like It or Not

The real environment that exists is that governments are part of the problem and part of the solution. The private sector is also part of the problem and the solution. If you do not believe that the private sector is part of the problem, look at the ultra poor performance of various parts of the private sector in the last thirty years ranging from the 2008-2009 fiasco in residential housing in the Western world and going through the myriad of failed companies in automobile manufacturing, textiles, shoes, television set manufacturing, steel, motion picture exhibition, real estate and retailing, among others.

It is important for governments to provide meaningful incentives to the private sector and, in general, the government should earn reasonable returns for providing such incentives. There are myriad relationships between the private sector and the government. There are three areas, though, where the private sector reacts instantly, massively and efficiently to government policies. It is as if government policies, in reality, direct the “invisible hands” which Adam Smith wrote about in 1776. These three areas are tax policy, credit granting and credit enhancement.

Wall Street Professionals and Corporate Executives are all In the Business of Creating Moral Hazards

The environment for moral hazard exists where an activist can create a situation vis-à-vis a passivist, so that the activist can believe “Heads I Win; Tails I Don’t Lose or I Don’t Lose Too Much”. That’s what corporate executives do vis-à-vis their stockholders. That is what Wall Street professionals do as Underwriters, Salesman, Investment Bankers, Hedge Fund General Partners, Leverage Buyout General Partners and Mutual Fund Managers.

Economists seem to believe that much of the problem in commercial banking revolves around moral hazard -- banks financed largely with government insured deposits could take special risks in lending because if the loans turned bad, the government would bail out the depositors. Virtually all these commercial banks were, and are, wholly-owned subsidiaries of holding companies. Insofar as the banks took excessive risk, holding company security holders were compromised, or in many cases virtually wiped-out (see Citigroup Common). Prior to 2008-2009, bank management caused the banks to take risks for which they were not close to adequately compensated. The blame for these management shortcomings seems not to be on moral hazard, but rather incompetence and a follow the herd mentality.

Ian Lapey and I, as co-managers of the Third Avenue Value Fund UCITS, are probably a lot more stupid than other fund managers because while we own interests in the management company, we both have very meaningful amounts of our net worth invested in the U.S.-traded Third Avenue Value Fund (managed according to the same strategy that we apply to the UCITS). These shares were purchased for cash at net asset value on the date of purchase, exactly the same way all other Third Avenue Value shareholders created their positions. In many other funds, fund managers seem to primarily own interests in the management companies, rather than the funds themselves. If the fund prospers, the management company will prosper even more; if the fund falters, the management company owners will lose less than the fund shareholders.

I am troubled by all these moral hazard attacks. First, I have never met a bank executive who did not care very much about the interests of the holders of holding company common stock. Second, and more important, if moral hazard were eliminated, I fear the economy would be much less innovative and productive than it is.

Taxpayer Bailouts are a Phony Concept

The government is the government; it is not the taxpayers unless one stretches the concept of substantive consolidation beyond reason. If the government provides financing to the private sector on a basis where there are positive returns to the government or the country, there has been no bail-out. If the government provides financing to private sector entities at a loss to the government or the country, then it is the government providing bail-out funds, not taxpayers who can be deemed to be the equivalent of common stockholders. In the first instance, the funds for the "bail-out" are provided to the government by lenders to the government, e.g., the Chinese much more than average taxpayers.

The concept of taxpayer bail-out seems to be a pejorative uttered by sincere people who do not understand that capital infusions can be an extremely useful tool, but only one tool, useful in the rehabilitation of financially troubled entities.

A Revolution in Corporate Reorganizations and Liquidations May Have Occurred in 2009 with the Chapter 11 Reorganizations of General Motors, Chrysler and CIT Corporation

I am the co-author of, *Distress Investing – Principles and Technique*. I finished writing my parts of the book in December 2008. At that time, I never dreamed that if a major corporation like General Motors filed for bankruptcy protection that anything could be done in the short term. Rather, I thought it had to be an uncontrolled proceeding full of uncertainties, an unpredictable outcome, lengthy and very, very expensive with administrative costs probably running to several billion dollars. In my book I pointed out how important it was to have controlled reorganizations or liquidations: prepacks, pre-arranged or whatever. At the time, I wrote that controlled reorganizations appeared do-able only for small companies. Perhaps General Motors, Chrysler and CIT have set a new precedent which will give rise to new legislation which will permit, and even encourage, all sorts of troubled issuers to reorganize expeditiously in a controlled manner while still preserving creditor rights. If so, such developments would be highly constructive for the U.S. economy.

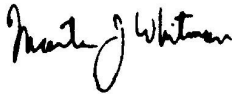
Strict Regulation of Financial Institutions is Absolutely Necessary

Coming from the U.S. mutual fund industry I am, of course, prejudiced. The enormous success of the industry over the last twenty-five years seems directly attributable to ultra strict regulation under the Investment Company Act of 1940 as amended (the "Act"). Because of the strictness of the Act, investors woke up to the fact that the industry could be trusted; fund investors would get a fair shake. There is no question that the existence of the Act has stifled initiative, is very expensive, is sometimes unfair and places burdens on a fund manager, such as myself, that I would rather not have. Granting this, I have no question that the existence of the Act has been beneficial to the industry and to Third Avenue Management. Since the Act inspired the regulations that govern UCITS like this one, it is on its way to helping investors worldwide.

In seeking strict regulation for other financial institutions, legislation might well look at the Act as a template for regulation, adapting the principles of the Act to the regulations of other financial institutions all of whom are vastly different from mutual funds and need vastly different regulations. Comprehensive regulation should cover the various areas covered by the Act: asset composition; how financed; how operations are conducted; executive compensation; corporate governance; disclosure requirements; and income tax issues.

The opinions voiced above are my own and not necessarily those of Third Avenue Capital plc or any of our employees. Some of my colleagues at Third Avenue agree with most of what I have stated, some do not.

Sincerely yours,



Martin J. Whitman
Founder
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 second quarter and semiannual 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 over the last six months follows with thoughts on securities of note.

New Positions

Equity Securities

CIT Group
Cenovus Energy
Key Corp.
Henderson Land Development (Warrants)

Debt Securities

CIT Group 7.00% Due May 2013
CIT Group 7.00% Due May 2014
CIT Group 7.00% Due May 2015
CIT Group 7.00% Due May 2016
CIT Group 7.00% Due May 2017

Positions Increased

Equity Securities

Bank of New York Mellon
Brookfield Asset Management
Cavco Industries
Cheung Kong Holdings
Cimarex Energy
Encana Corp.
Forest City Enterprises
Guoco Group
Hang Lung Group
Hang Lung Properties
Henderson Land Development
Investor AB
Jardine Matheson Holdings
MDC Holdings

Equity Securities (continued)

Nabors Industries
Pargesa Holding SA
POSCO
RHJ International
Tejon Ranch
Tellabs
Toyota Industries
Wharf Holdings
Wheelock & Co.

Positions Eliminated

Debt Securities

CIT Group Senior Unsecured Due March 2010
Nortel Networks 2.125% Due April 2014
Standard Pacific 7.000% Due August 2015

Positions Reduced

Equity Securities

AVX Corp.
Chong Hing Bank
Sycamore Networks

PORTFOLIO DISCUSSION

As noted in last quarter's letter, the massive recalls by Toyota Motor caused us to put our investment in Toyota Industries under review. Based on recent events, including Toyota Motor's U.S. sales growth of 35% and 24% in March and April, respectively, compared to a year ago, and a return to profitability for Toyota Industries in its fiscal fourth quarter (year ended 31 March, 2010), we do not believe that there has been a permanent impairment to our investment in Toyota Industries Common and believe that the company's future prospects remain attractive. Fund management added to its position in Toyota Industries during the quarter. As of the quarter end it accounted for approximately 7.6% of the portfolio.

HONG KONG REAL ESTATE AND INVESTMENT COMPANIES – ROBUST BUSINESS RESULTS AND FINANCIAL POSITIONS; ATTRACTIVE VALUATIONS

As of 30 April 2010, approximately 35.7% of the portfolio was invested in the common stocks of companies based in Hong Kong. Our Hong Kong investments meet our basic criteria well: 1) the businesses enjoy super-strong financial positions; 2) the common stocks are available at meaningful discounts from Net Asset Value (NAV); and 3) we believe the prospects are strong that NAVs over the next five to seven years will grow at rates of at least 10% per annum compounded. Additionally, each company is run by a management team with an impressive long-term track record whose interests are aligned with ours through meaningful insider ownership. These companies are primarily involved in real estate development in Hong Kong and China but also have investments in numerous other industries, including gas distribution, ports, telecommunications, retail, energy and financial services. Although the Fund's concentration in these Hong Kong common stocks has resulted in increased volatility in its day-to-day NAV, we believe that these investments continue to be the best applications of our "safe and cheap*" investing philosophy and that the increased volatility is more than justified by their very attractive long-term return potential.

* "Safe" means the companies, in our judgment, have strong finances, competent management, and an understandable business. "Cheap" means that, in our judgment, we can buy the securities for significantly less than what a private buyer might pay for control of the business.

**Third Avenue Value Fund
Hong Kong Real Estate and Investment Companies**

	Common Stock Price	Common Stock Per Share		Discount	Net Debt to Capital	Insider Ownership
		NAV (1)	Adjusted NAV (2)	Adjusted NAV (2)		
Cheung Kong Holdings	\$97.05	\$105.17	\$106.03	8%	8.6%	42%
Hang Lung Group	\$38.50	\$35.58	\$40.38	5%	3.8%	37%
Henderson Land Development	\$49.85	\$62.01	\$66.08	25%	16.1%	54%
Wharf Holdings (3)	\$42.65	\$41.83	\$47.73	11%	15.7%	30%
Wheelock (4)	\$24.55	\$34.30	\$38.65	36%	4.3%	59%

Note: Prices as of April 30, 2010. All figures in Hong Kong dollars.

(1) Reported Net Asset Value as of 12/31/09.

(2) Excludes Deferred Tax Liability.

(3) Insider ownership represents indirect ownership through Wheelock.

(4) Excludes Wharf's net debt (non-recourse to Wheelock) and Wheelock Properties' net cash.

Source: Company reports.

I recently visited Hong Kong and Shanghai with Jason Wolf, our Senior Real Estate Analyst and Portfolio Manager. We toured properties and met with the management teams of all of our significant holdings, following the release of their 2009 financial results. Additionally, we met with competitors, local property analysts and real estate brokers. Generally, the meetings reinforced our view that property fundamentals remain healthy in Hong Kong, and our companies appear to be very well positioned to capitalize on this strength over the next several years.

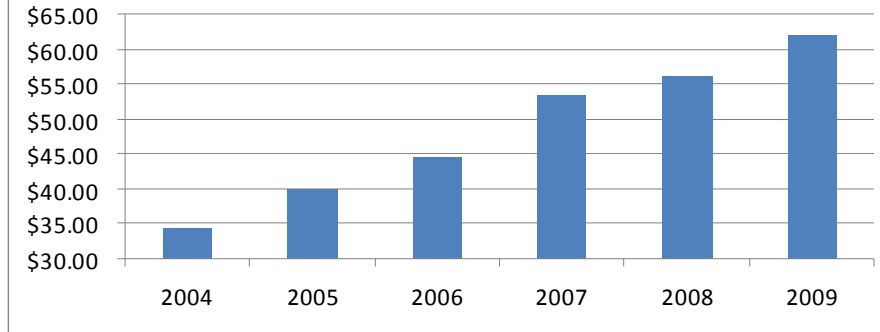
In Shanghai, there is considerable competition and excess supply, particularly in office buildings, but the assets of our companies appear to be well located and likely to benefit over the long term from their high quality development standards. The measures being taken by the Chinese government to cool the property market, which include raising down payments (to 30% from 20% on first homes and to 50% from 40% on second homes), setting a minimum mortgage rate for banks (1.1 times the central bank's benchmark interest rate) and raising bank reserve requirements, appear to be sensible and constructive on a long-term basis. These measures appear to be primarily focused on residential speculation in tier 1 cities. Our companies have generally avoided the speculative areas and are more focused on secondary cities which tend to be more owner occupied.

As the discussion below indicates, each Hong Kong-based company in which we have a significant investment reported very strong financial results in 2009, despite a global credit crunch and recessions in many countries, including Hong Kong. Each company remained profitable and generated attractive net asset value growth while retaining an extremely strong financial position. We are looking forward to the financial results for these companies under more normal global economic conditions. The following are highlights of our recent meetings and the 2009 financial results for our significant holdings, which, in the aggregate, represent 32.7% of the Fund's net assets.

Henderson Land

Henderson Land Development Co, whose common stock represents 9.1% of the net assets of the Fund, reported earnings for the 18 months ended 31 December, 2009 of HK\$ 6.67 per share (the company changed its fiscal year end to 31 December from 30 June). Reported net asset value per share and adjusted net asset value per share (excludes deferred tax liability on investment properties in Hong Kong since there is no capital gains tax) each increased 10% to HK\$62.01 and HK\$ 66.08 per share, respectively. Over the last five years, Henderson's reported net asset value has increased at a 14% cumulative annual growth rate (CAGR) including dividends.

Henderson Land Development 5-Year Reported NAV Growth 14% CAGR



The company's net rental income (including associates and jointly controlled entities) increased by approximately 11% after adjusting for the 18-month reporting period. Henderson's major investment properties in Hong Kong (excluding properties completed after 1 January, 2008) were 97% leased as of year-end. Henderson's balance sheet remained strong with a net-debt to capital ratio of only 16.1%. Given this strong financial position, we were surprised when the company announced a Bonus Warrant Issue in which one warrant to purchase stock for HK\$58 per share (exercisable for one year) would be issued for each 5 shares held. Based on our discussions with management, we believe that the Bonus Warrant issue was driven by the company's desire to take advantage of attractive real estate development opportunities in both Hong Kong and mainland China while keeping a very strong financial position and allowing all shareholders to participate in the company's growth without being diluted. Additionally, we believe that the Bonus Warrant Issue indicates that management believes that the corporate value is in excess of the current common stock price (the exercise price is at a 16% premium to the price of Henderson Common as of April 30, 2010).

Henderson appears to have attractive growth prospects based on its low cost land and expertise in redevelopment projects. In Hong Kong, the company is converting its huge agricultural land bank (40 million square feet) for residential projects and purchasing old buildings for redevelopment (11 buildings purchased to date totaling 1.2 million square feet, with 19 additional buildings to be purchased in 2010 covering 3 million square feet). The company has a two-pronged strategy for its mainland China real estate development business, consisting of building commercial investment properties for rental on low cost land (primarily purchased in the 1990's by Henderson China, which was privatized in 2005) in primary cities and developing its huge land base (146 million square feet purchased between 2006 and 2009) for residential use in secondary cities. We viewed the Henderson Metropolitan, a 730,000 square foot Grade A office building and shopping mall development, which is expected to be completed this June, and were impressed with the quality construction and prime location and on Nanjing Road East in Shanghai.

While Henderson is largely a real estate development company, its 39.9% ownership stake in Hong Kong and China Gas ("HKCG"), a publicly-listed associate, accounted for 46% of its market cap as of April 30, 2010. HKCG is the largest distributor of piped gas in Hong Kong, with a growing presence in mainland China through its 45.6% stake in Towngas China. Owing to the stability of HKCG's Hong Kong business, the company has been a steady source of dividends for Henderson during the recession and credit crises (approximately HK\$900 million per year). On March 17, 2010, Towngas China and HKGC entered into an agreement whereby Towngas China would purchase six piped gas projects in China for HK\$1.7 billion, which will be satisfied by the issue of new shares to HCGC, resulting in an increase in HKCG's ownership to 56.4%. Based on our discussion with Henderson's management,

Towngas China appears to be very well positioned to add gas customers in the mainland over the next several years.

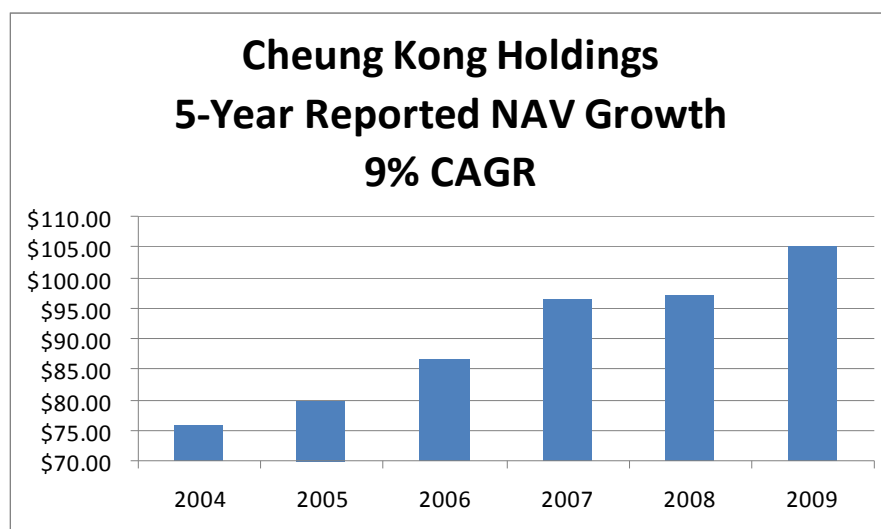
Along with its 2009 Annual Report, the company provided valuations of its property interests and publicly-listed associates as of February 28, 2010. The property valuations were done by DTZ Debenham Tie Leung Limited, an independent professional property adviser headquartered in London. Based on these valuations, Henderson's net asset value and adjusted net asset value totaled HK\$85 and HK\$89 per share, respectively, compared to its common stock price of HK\$ 49.85 as of April 30, 2010. This huge discount appears to have also been compelling to Chairman Lee Shau-kee, who acquired 5.32 million shares between May 3 and May 5, 2010 for HK\$253 million. These purchases raised Chairman Lee's ownership stake to 54.12%.

Cheung Kong

Cheung Kong Holdings, whose common stock represents 9.2% of the Fund's net assets, reported 2009 earnings of HK\$8.59 per share, a 53% increase compared to 2008. The earnings growth was driven by a HK\$3.9 billion increase in the fair value of its investment properties, primarily owing to the completion of 1881 Heritage, a high-end shopping mall that we viewed in Hong Kong adjacent to Wharf's Harbour City. The property is already fully leased. Additionally, the company reported a 28% increase in profit from property sales, reflecting strength in both the Hong Kong and China residential property markets, and a 20% increase in property rental income, including jointly controlled entities.

Cheung Kong's 50% owned subsidiary, Hutchison Whampoa, reported a 12% increase in earnings as declines in cyclical businesses, such as ports and energy, were more than offset by reduced losses in its 3G telecom operations and lower interest expense. The outlook for many of Hutchison Whampoa's cyclical businesses seems to be improving, and the company should benefit from cost reduction efforts undertaken during the recession. For example, Hutchison Whampoa's retail business generated a 120 basis point improvement in EBIT margin to 4.9%, despite a 2% decline in sales. The company is believed to be the largest health and beauty retailer in the world, with 13 different brands and 8,700 stores. Management is cautiously expanding the retail business in markets with high growth potential, such as mainland China. Cheung Kong's stake in Hutchison Whampoa accounted for approximately 51% of its market cap as of April 30, 2010.

Cheung Kong's NAV increased by 8% to HK\$105.17, compared to its price as of April 30, 2010 of HK\$97.05. Over the last five years, Cheung Kong's reported NAV has increased at a 9% CAGR, the lowest growth rate among our major Hong Kong holdings, owing primarily to the losses incurred by Hutchison Whampoa's 3G telecom operations.

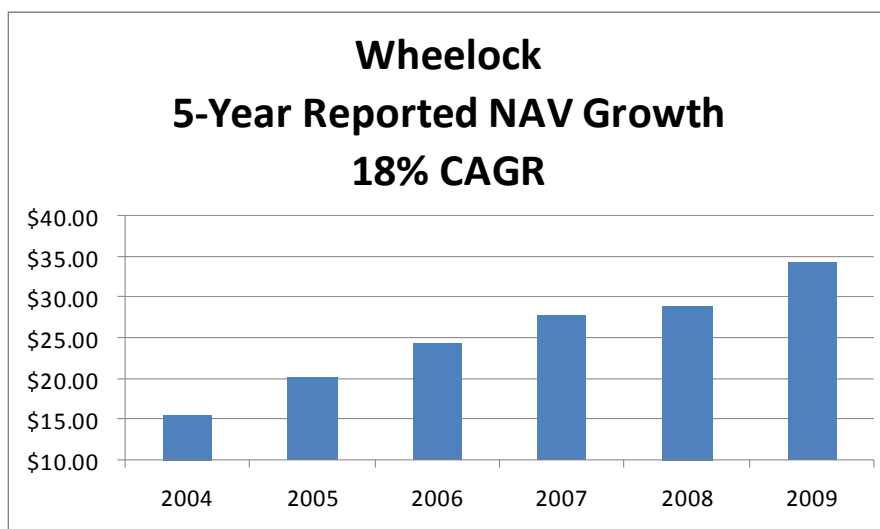


Cheung Kong generated strong cash flow during the year, resulting in a HK\$9.7 billion reduction in total borrowings and a net debt-to-capital ratio of only 8.6%, down from 13.2% a year ago. Cash flow should also be healthy in 2010, as the company's large residential land banks in both Hong Kong (an estimated 5-6 year supply) and China (approximately 200 million square feet) position it well to benefit from the current strength in both markets. Cheung Kong is very well positioned to take advantage of timely investment opportunities both in the property sector and other areas with HK\$50 billion in available funds. Based on our recent meeting with management, we would expect any significant new investments to be by Cheung Kong as opposed to Hutchison Whampoa.

Chairman Li Ka Shing appears to agree with our bullish assessment of the company's long-term prospects and the attractiveness of its common stock. Since September, 2009, he has purchased 41.1 million shares at average price of HK\$99.66 (versus the price of HK\$97.05 as of April 30, 2010). These purchases increased Chairman Li's ownership position to 42.0% from 40.3%.

Wheelock and Wharf

Wheelock and Company, whose common stock represents a 4.8% position in the Fund, reported that 2009 earnings increased 181% to HK \$4.74 per share. The results were driven by robust earnings from 50% owned subsidiary Wharf Holdings (see below). Wheelock's NAV increased by approximately 19% to HK\$34.30 per share, compared to a stock price of HK\$24.55 as of April 30, 2010. Wheelock's reported NAV has increased by an average of 18% per year over the last five years, including dividends.

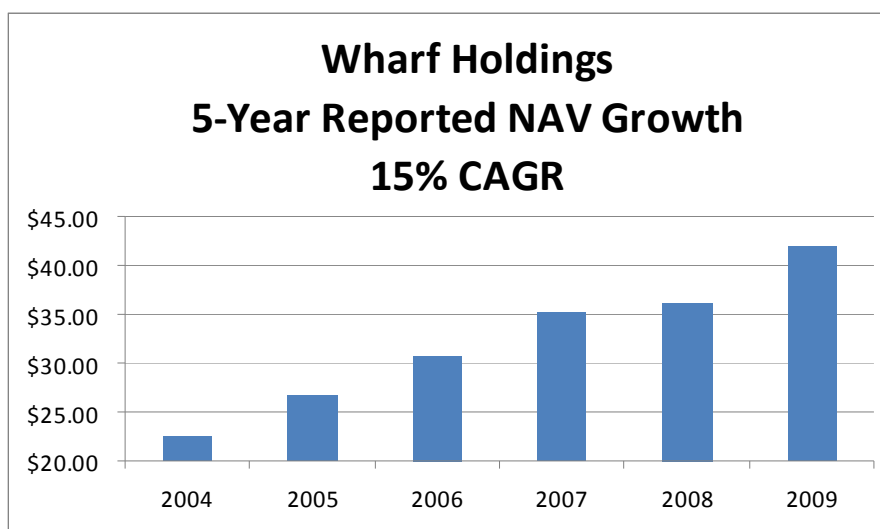


On April 19, 2010, Wheelock announced a proposed privatization plan for Wheelock Properties (a holding in the Third Avenue Real Estate Value Fund), a 74% owned subsidiary focused on real estate development in Hong Kong and Singapore (through its 75% stake in Wheelock Singapore). Wheelock is offering HK\$13 per share in cash, which represents a 144% premium over the last trading price before the transaction was announced, but a 3.4% discount to reported NAV as of year end. During our recent meeting with management in Hong Kong, management indicated that it was looking to make acquisitions. It appears that, at least initially, the most attractive opportunity existed within its own company.

Wharf Holdings, whose common stock represents 4.3% of the Fund's net assets, reported a 179% increase in 2009 earnings to HK\$6.35 per share. Even excluding the large increase in the fair value of its investment properties (HK\$ 12.2 billion), earnings increased by 86%. Property leasing income increased by 13% owing to robust performance by the company's core Hong Kong properties, Harbour City and Times Square, both of which had 100% retail occupancy and office occupancy in the mid 90% range. These two properties accounted for 8% of Hong Kong's total retail sales in 2009. Based on our tour of Harbour City, and reportedly robust results during the first quarter of 2010, new retail property supply (Cheung Kong's 1881 Heritage shopping mall) is not having a significant negative impact.

Wharf's China investment properties generated rental income growth of 26%, driven by a full year's contribution from the Dalian Times Square, which opened in late 2008. The company also monetized its Beijing Capital Times Square investment, resulting in a HK \$1.4 billion after tax gain. Wharf also generated much improved results from its property development business in China, as operating profit increased to HK\$1.0 billion from HK\$0.1 billion in 2009. The outlook for this business is healthy, given the company's large land position of more than 100 million square feet. In 2010, the company expects to more than double the 4.7 million square feet sold in 2009 and improve upon its 33% operating margin.

Despite the company's aggressive development in China, Wharf's financial position improved in 2009, with net debt declining by 10% excluding non-recourse debt of subsidiaries. Wharf's NAV increased by 16% to HK\$41.83 per share. Over the last five years, Wharf's reported NAV has increased at a 15% CAGR, including dividends.



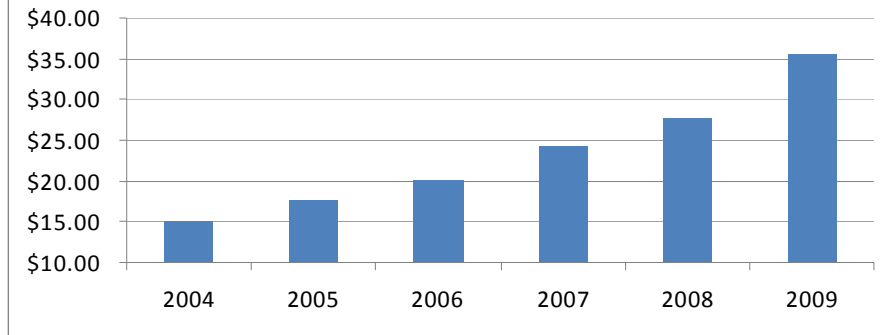
Hang Lung

As we reported last quarter, Hang Lung Properties Ltd ("Properties"), whose common stock represents 1.4% of the Fund's net assets, reported very strong financial results for the first half of its fiscal 2010 (June 30 year-end). Earnings per share increased to HK\$4.14 from HK\$0.29 a year ago, owing primarily to large increases in the fair value of investment properties in both Hong Kong and mainland China and highly profitable sales of residential units from its HarbourSide project in Hong Kong. Management indicated that fiscal 2010 earnings will exceed the record set in 2008, even without the sale of additional apartment units in Hong Kong.

In Shanghai, we toured the company's Plaza 66 shopping mall, the premier property of its kind in the mainland. This mall, along with its Grand Gateway property, which is also fully leased, drove rental income growth of 15%. Shanghai now accounts for 43% of the company's total rental revenues.

These strong results drove a 28% increase in the reported NAV of the parent company, Hang Lung Group Ltd ("Group"), whose common stock represents a 3.9% position in the Fund, to HK\$ 35.58 per share. Group's NAV has increased at a 21% CAGR over the last five years. This represents the highest net asset value growth rate among our major Hong Kong holdings, despite the use of virtually no leverage, and is a tribute to Chairman Ronnie Chan's long-term vision and execution.

Hang Lung Group 5-Year Reported NAV Growth 21% CAGR



Hang Lung is well positioned to continue its rapid net asset value growth going forward, owing to its strong financial position and attractive land sites in the rapidly growing secondary cities in the mainland. These land sites were purchased opportunistically in recent years (no land was purchased when prices were high from 2007 through May, 2009). Properties has a net cash position of HK\$2.2 billion, while Group's net debt-to-capital ratio is only 3.8%. In the next several years, Properties plans to open the following projects:

- 2010 – Palace 66, Shenyang; 1.2 million square foot (msf) shopping mall.
- 2011 – Parc 66, Jinan; 1.8 msf shopping mall.
- 2012 – Forum 66, Shenyang; 9.1 msf shopping mall, office, hotel, serviced apartments (in phases).
- 2013 – Centre 66, Wuxi; 4.1 msf, multi-complex (in phases).
- 2013 - Riverside 66, Tianjin; 1.7 msf shopping mall.
- 2014 – Olympia 66, Dalian; 2.4 msf shopping mall.

The opening of these projects is projected to increase Properties' rental turnover to more than HK\$8 billion from HK\$4.2 billion in 2009. The early results appear to be promising, with the Palace 66 in Shenyang scheduled to open the last week in June and already more than 90% pre-leased.

I shall write to you again after the 31 July, 2010 quarter end.

Sincerely yours,

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 second quarter and semiannual commentary for the Third Avenue Small-Cap Value Fund UCITS ("the Fund"). A record of portfolio activity over the last six months follows, along with a discussion of some key points we consider when selecting investments for our portfolios.

New Positions

Equity Securities

Alamo Group
Herley Industries
Liberty Media (Starz Common)

Positions Increased

Ackermans & Van Haaren
Alexander & Baldwin
Alico
Arch Capital
Bel Fuse
Bristow Group
Bronco Drilling
Brookfield Asset Management
Cimarex Energy
Cross Country Healthcare
Electro Scientific Industries
Electronics For Imaging
Encore Wire Corp.
HCC Insurance Holdings
Imation Corp.
Investment Technology Group
Jakks Pacific
JZ Capital Partners
Kaiser Aluminum
K-Swiss
Lanxess
Leucadia
Lexmark International

Equity Securities (continued)

National Western Life Insurance
Parco
Park Electrochemical Corp.
Pharmaceutical Product Development
PH Glatfelter
Pioneer Drilling
PVI Corp.
Sapporo Holdings
Synopsys
Tellabs
Tidewater
Timberwest Forest
Vail Resorts
Viterra
Wacker Neuson
Westlake Chemical

Position Reduced

Equity Securities

Sycamore Networks

Positions Eliminated

Canfor Corp.
Precision Drilling Trust
St. Mary Land & Exploration Co.

PORTFOLIO DISCUSSION

Fund Management's posture during the past six months can best be described as cautious, wary of the rapid and relentless appreciation generally characterizing small-capitalization stocks during recent periods. We added a new name to the portfolio (Liberty Media – Starz Common) and initiated defensive put options on the Euro.

Liberty Media Starz was created as a tracking stock in the wake of Liberty Media's split off of various of its media assets late in 2009. Starz provides premium movie services, distributing movie channels, including its Starz and Encore brands (with 17 million and 31 million subscribers, respectively), through cable operators, telephone companies and satellite (DBS) services providers. In addition to its on-demand services, Starz has in recent years also been developing original content and in 2008 licensed its broadband service, "Starz Play," to Netflix. As a "wholesaler", Starz occupies an incumbent and seemingly difficult-to-replace middleman role between its affiliate customers such as Verizon, Comcast and DISH Network on the one hand, and content producers such as Disney and Sony with which it has longer-term contractual arrangements.

Starz's new CEO, Chris Albrecht, spent more than 20 years building an enviable track record at HBO, and Starz continues to add to its management team post split-off. As of the end of March, Starz reported attributable cash and equivalents of nearly U.S. \$1 billion (representing approximately 37% of its market cap) with virtually no debt, affording the company ample financial flexibility to pursue multiple growth opportunities, including via:

- i) growth in subscribers/digital cable customers and effective price increases associated with new functionality (e.g., high definition) and CPI-based escalations within their contracts;
- ii) the creation of cost effective original content and programming;

iii) share repurchases at economically attractive levels. Tracking stocks like Starz are generally established to reflect the economic performance of a particular business or group within a company. Such “trackers” often sell at a discount to intrinsic value, however, because shareholder voting rights and economics ultimately remain tied to the parent company. Boards of companies with tracking stocks can, for example, transfer assets and liabilities attributed to the company without shareholder approval. In this case that economic/governance risk appears to be mitigated by the favorable track record of Liberty’s shareholder oriented executive team, including that of Chairman John Malone.

In its current form, Starz appears to have reasonable growth prospects and enjoys many of the right ingredients with which it can develop its per share business value at attractive rates. However, it seems unlikely that the company will stay “as is” during the next three to four years given Malone & Co.’s track record of “resource conversion,” suggesting additional paths towards value creation. For example, were Starz spun off into its own legally separate company, it is quite likely that the current discount between the market price and the underlying business value would narrow considerably. The Fund’s cost basis, which equates to approximately five times EBITDA and ten times free cash flow, seems like a good starting point for this cash generative business with an accomplished leadership team.

The Fund currently owns shares of three European-based companies, two of which are headquartered in Germany and one in Belgium. In each case the companies do business globally, and are exposed to foreign exchange movements to varying degrees within their respective businesses. While the recent weakening of the euro against the U.S. dollar can actually benefit these companies – where, for example, products or services are sold in dollar terms and those sales subsequently get translated at strengthening exchange rates back into euros – a weakening euro can, symmetrically, have a deleterious effect on U.S.-based investors with euro-denominated investments like the Fund. (Conversely, U.S. companies doing business in Europe with euro-based revenues will be hurt by the same movement in exchange rates.) Given the rapidly deteriorating fiscal conditions of select European Union members, a growing fear of sovereign debt defaults (e.g., Greece), and the adverse effects on the euro, Fund Management elected to buy a one-year and a two-year, out-of-the-money put options on the euro as a relatively cheap insurance policy against a potentially draconian outcome for the European currency. (The Fund has approximately 30% of its assets in securities of companies domiciled outside of the United States, including in Canada, Japan and Europe. At present the Fund has currency hedges, in the form of put options, on the yen and the euro.)

CREDIT CRISIS REDUX AND THE THIRD AVENUE MAXIM

As global investors discovered in recent weeks, not all the credit ghosts have been exorcised from the system. The European sovereign credit bomb, the fuse to which was lit by questions about Greek liquidity and solvency, reminds me of that period in 2008 leading up to the structured finance/leveraged finance credit crisis with, in this case, headlines predicting the imminent demise of the Euro zone, government officials fighting the public relations war (as opposed to solving the problems) and politicians pointing fingers at speculators (i.e., so-called “bond vigilantes”) and rating agencies (again). Predictably (see Mexico c. 1994, Korea c. 1997 and Russia c. 1998, among others), once the “rescue package” was organized and announced, equity markets heaved a collective sigh of relief and rallied furiously.

It would be easy to get swept away by such headlines and ignore the fact that capitalism, on a very long-term basis, and especially as practiced in the United States, has been remarkably resilient, surviving war, depression, inflation/ stagflation, terrorism, social unrest and political upheaval. In fact, according to a study by Credit Suisse, “the very long-run trend of real equity returns is apparently around 6% to 6 1/2% per year,” reflecting a long-term equity premium of roughly 5% over treasury bills (“Credit Suisse Global Investment Returns Yearbook 2009”). Unfortunately, the swings on either side of this long-term trend can not be ignored. A certain amount of volatility, like the kind the markets have experienced this year, is part and parcel of

equity investing. At times like these it is critical to have an investing framework on which the investor can rely. Such is the case with Third Avenue's "Safe and Cheap*" philosophy, a philosophy grounded in risk aversion and price consciousness that has served investors well for decades, and one that is designed to preserve and grow capital over the long haul.

As we wrote to you about our investment philosophy almost two years ago, at the onset of the credit crisis, at Third Avenue, when considering a new investment, we are naturally defensive, skeptical and paranoid. Our due diligence process is extensive. We try to poke holes in our colleagues' ideas. We talk to business people, not to Wall Street cheerleaders. We eschew the use of leverage in our own portfolios, as well as in the companies whose securities we are invested. We ask ourselves, "how can this business get hurt, and what can go wrong? What is our potential downside?" Given the recent market turbulence, it is worth reminding you, our partners and shareholders, about the central tenets of investing at Third Avenue:

- We do not borrow money in order to invest, or to boost our returns. In the presence of lots of leverage, even a small downward twitch in the associated asset value can wipe out the investor's equity in a heartbeat;
- Part of our focus is on capital preservation. We invest in attractively-priced securities underpinned by conservatively financed and well-managed businesses;
- We expend little money or energy trying to avoid market risk (i.e., short-term market price fluctuations in our holdings), but we do spend an inordinate amount of time and energy trying to minimize investment risk (a loss of capital created by a permanent impairment of the business);
- We strive to share new developments in the Fund by writing these shareholder letters every quarter. We highlight new investments, dispositions and discuss both positive outcomes, as well as mistakes, so that you know what you own and why;
- Our UCITS funds provide shareholders with daily liquidity at readily ascertainable net asset values which, in the case of the Fund, rely upon publicly quoted stock prices;
- We are personally invested alongside of our shareholders. In my case, that investment significantly increased at the beginning of this year (along with my personal investments in all of our sister funds).

Today's volatility, if it persists, will likely continue to set up some excellent long-term investment opportunities and we have already initiated new positions in the current quarter. Supported by an outstanding team of colleagues, I look to the future with confidence. I look forward to writing you again when we publish our Third Quarter report dated 31 July, 2010.

Thank you for your continued loyalty and support.

Sincerely,



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

* "Safe" means the companies, in our judgment, have strong finances, competent management, and an understandable business. "Cheap" means that in our judgment, we can buy the securities for significantly less than what a private buyer might pay for control of the business.

**Third Avenue Real Estate Value Fund
Shareholder Letter for the
Period Ended October 31, 2009**



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 second quarter and semiannual commentary for the Third Avenue Real Estate Value Fund UCITS ("The Fund"). A record of portfolio changes for the last six months 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

Berkeley Group Holdings
NTT Urban Development
Songbird Estates
Henderson Land Development (Warrants)

Positions Increased

Brookfield Asset Management
Brookfield Properties
Capitaland
Consolidated Tomoka Land Co.
Daibiru Corp.
Derwent London
Forest City Enterprises
Hammerson plc
Hang Lung Properties
Hongkong Land Holdings
Hysan Development Co.
Mitsubishi Estate Co.
Mitsui Fudosan Co.
Savills plc
The St. Joe Co.
Sun Hung Kai Properties
Thomas Properties Ltd.
Vornado Realty Trust

Position Decreased

Wheelock & Co.

Position Eliminated

Wharf Holdings

PORTFOLIO DISCUSSION

The Fund established a new position in Berkeley Common. Berkeley is a U.K.-based real estate operating company focused on urban regeneration projects in London. Berkeley is headed by Chairman Tony Pidgley, who has a long track record of creating value for shareholders by opportunistically acquiring brownfield sites that are well-suited for redevelopment. Berkeley's business is focused on the central London market, where it owns and controls sites that can accommodate more than 30,000 residential units. With the well-documented shortage of housing in London and lack of new building activity, Berkeley's existing inventory and entitlements for future development should prove highly valuable over the long term. In the short term, any weakness in the U.K. property markets will create an opportunity for Berkeley to utilize its U.S. \$500 million net cash position to pick up additional sites at attractive prices.

The U.S. REIT Index has risen 165% since its market low on 6 March, 2009, and 71.4% and 17.9% for the one year and four months ended 30 April, 2010, respectively. The spectacular rally in U.S. REIT stocks seems unwarranted given that fundamentals for commercial real estate remain uncertain and U.S. REITs trade at more than 20 times free cash flow and a 25% premium to net asset value. Fund Management believes that these uncertainties are not necessarily reflected in securities prices. Therefore, the Fund has continued to maintain a defensive position by concentrating its investments in common stocks of well-financed real estate companies trading at discounts to NAV and holding substantial cash reserves. In general (from a macro view), certain real estate markets seem expensive – in particular, the U.S., the U.K. and Europe. However, this does not mean that there is a lack of investment opportunities for the Fund. Rather, it warrants a cautious approach and strict adherence to fundamental, bottom-up analysis to identify bargains in global real estate securities as well as meaningful developments occurring at the “micro-level”. Below is a discussion of some of the Fund's key holdings and factors impacting investments in each geographic area.

North America

Approximately 28% of the Fund's assets are invested in the common stocks of North American real estate companies. Core holdings include: US-based Forest City Enterprises; Vornado; three land development companies; and its sole Canadian-based holding, Brookfield Asset Management (BAM) and Brookfield Properties (BPO).

BAM is an extremely well-managed asset management company with significant investments in real estate (including 50% ownership of BPO), power and infrastructure. BAM Common currently trades at a discount to its stated NAV, which continues to grow as underlying cash flows increase and excess capital is allocated to value-enhancing investments alongside its partners. The company's most recent investments include (1) its participation in the reorganization of General Growth Properties (the largest U.S. real estate-related bankruptcy in history); and (2) completing the \$1.8 billion recapitalization of Babcock & Brown's infrastructure business (which resulted in BAM becoming one of the dominant investors in global infrastructure assets).

Forest City Common is the largest position in the Fund and represents one of the most compelling valuations for a U.S.-based real estate company. In 2009, due to the rapid decline in U.S. economic activity, Forest City was forced to raise equity at dilutive prices (the Fund participated in the equity raise) and right size its development pipeline. However, Forest City's long-term strategy of owning a diversified portfolio of high-quality, income-producing properties and financing its business almost exclusively with non-recourse mortgage debt has allowed it to emerge from the downturn with its portfolio and key development projects intact. Given the lack of construction activity in the U.S. (40 year lows), Forest City's well-located projects in key urban locations—such as New York City and Washington, D.C.—should ultimately prove quite profitable.

While commercial real estate values have declined 40% from their peak in 2007, land values have declined even further. Public homebuilders with large land inventories were forced to

sell off holdings at distressed prices to maintain liquidity. Other landowners with debt were wiped out in bankruptcy or through foreclosure. Land developers with little or no debt were able to withstand the downturn and are now positioned to take advantage of what appears to be a resurgence in demand for residential lots. National homebuilders have resumed buying lots, and by some estimates, residential lot prices have increased by 30-40% in certain California and Florida markets as a result. Through its investments in Newhall Common, St. Joe Common, Tejon Ranch Common and Consolidated Tomoka Common, the Fund has a substantial stake in some of the most prime developable land parcels in Southern California and Florida—both of which will continue to be high-growth markets in the future. Fund Management is especially optimistic about the activity surrounding St. Joe's land holdings in Northwest Florida. After a multi-year process, the Northwest Florida Beaches International Airport will open in Panama City in May 2010. This will be the first international airport to open in the U.S. in more than 10 years and will initially be served by Southwest and Delta. With connections to other major markets in the U.S., the airport should significantly boost commercial and leisure travel to the area. St. Joe wisely donated 4,000 acres for the new airport – as it owns nearly all of the land for miles surrounding the airport and 300,000 acres within a 40-mile drive.

Asia ex-Japan

Approximately 21% of the Fund's assets are invested in the common stocks of real estate operating companies based in Hong Kong (six companies) and Singapore (one company). As noted in last quarter's Letter to Shareholders, the assets are heavily concentrated in Hong Kong, but with meaningful exposure to mainland China. Each company has a super strong financial position – Fund Management believes they are among the most well-capitalized real estate companies on a global basis. In some cases, the companies are net cash (e.g., Hang Lung Properties). Recent corporate announcements by Henderson Land and Wheelock & Co. (two of the Fund's largest holdings in the region) could be catalysts that will help eliminate the material discrepancy between their current stock prices and underlying NAVs.

Henderson Land (Hong Kong listed) has substantial holdings in Hong Kong income-producing properties (office and retail), major real estate development projects in Hong Kong and mainland China, and a 40% stake in separately-listed Hong Kong & China Gas—one of Asia's market-dominant and cash-generative gas producers. Henderson recently provided its shareholders with a supplement to its Annual Report that outlined the results of a property appraisal conducted by a globally-recognized and independent property valuation company. The appraisal was commissioned to improve transparency and assist shareholders in understanding the substantial hidden value in the company's portfolio. The appraisal highlighted a HK\$49 billion unrealized gain (after tax) on the company's real estate development projects and publicly-listed associates. Factoring this unrealized gain into the company's financial statements results in an adjusted book value of approximately HK\$85 per share, compared to the current trading price of HK\$50 per share.

Wheelock & Co. (Hong Kong listed) owns a 43% stake in Wharf Holdings and a 74% stake in Wheelock Properties (each separately listed in Hong Kong). Wheelock's investment in Wharf accounts for a substantial portion of its overall value. Wharf owns Harbour Center and the Times Square properties in Hong Kong. These market dominant, mixed-use assets continue to report robust retail sales figures due to the influx of shoppers visiting from the mainland. During the quarter, Wheelock announced a take-over offer to the minority shareholders of Wheelock Properties. By acquiring 100% ownership of Wheelock Properties, the company would simplify its corporate structure, which may eliminate some of the "complexity discount" for its common stock.

Given the Fund's material exposure to the Hong Kong and China property markets (through Hong Kong-based companies), we continue to closely monitor not only our portfolio companies but the region in general. Jason Wolf, co-manager of the fund, and Ian Lapey, co-portfolio manager of Third Avenue Value Fund, traveled to Hong Kong and

Shanghai in late March-early April, where they met with company managements and visited properties. Based on their recent feedback, we remain very comfortable with these holdings.

United Kingdom

Approximately 16% of the Fund is invested in the common stocks of U.K. companies that primarily own properties in London—a market that has its share of fundamental problems, but has recently been fueled by international capital investments in commercial and residential real estate. The bulk of that capital has been invested in high-quality, central London commercial assets, driving up prices to reflect 5% yields (cap rates) for Class “A” assets. One of the Fund’s holdings, Derwent London, a REIT that specializes in owning and redeveloping offices properties in the West End submarket, has exploited this recent influx of foreign capital by selling fully stabilized assets and reinvesting profits into its redevelopment pipeline. Derwent’s management team has a long track record of creating value for shareholders by profitably repositioning assets.

As prices for high-quality properties are increasing, transaction volumes are also on the rise. By some estimates, residential and commercial transactions have increased by more than 80% over last year and are approaching 2007 levels. The increased transaction volume will undoubtedly benefit the Fund’s investment in Savills, a property services firm with a dominant commercial and residential brokerage business in London. Savills entered the downturn in a net cash position (unlike the other global property service firms) and was able to retain its “rainmakers” in addition to adding some key producers to its team, while competitors were cutting staff to reduce costs. It is likely that, as transaction volumes rebound, Savills will gain market share in London and drive profits beyond previous levels. Savills’ Common currently trades at an 8 times multiple of peak earnings (adjusting for the Company’s net cash position).

There has been a noticeable lack of building activity in the London office market and the last remaining large blocks of space (200,000 square feet or more) have been snapped up by tenants in recent months. As a result, new development activity is now being considered. But only a handful of companies have the resources and know-how to undertake a meaningful new project – one being Songbird Estates, a 4.1% holding in the Fund. Songbird owns a 70% controlling interest in Canary Wharf Group, which owns and manages 8 million square feet of prime office and retail space and has a development pipeline that could accommodate an additional 6 million square feet. Canary Wharf is extremely well financed, with U.S. \$1.7 billion of cash reserves.

Japan

Japanese real estate securities trade at the largest discounts to NAV relative to other developed regions. The Fund has 13.6% of its assets invested in the common stocks of Japanese real estate companies. Fund Management considers both quantitative and qualitative factors in the portfolio construction process. Strong balance sheets and discounted stock prices are clearly given substantial weight. However, corporate governance issues (e.g., general disregard for outside, passive minority shareholders) and a virtually non-existent mergers and acquisitions market are causes for an apprehensive approach to investing in Japan.

One development that may serve as a catalyst to close the gap between stock prices and NAV for Japanese property companies is the requirement that, commencing with the fiscal year ended 31 March, 2010, companies must disclose in their financial results the fair market value of income producing property portfolios. Japanese generally accepted accounting principles (GAAP) requires assets to be carried at historical cost less accumulated depreciation (similar to U.S. GAAP), which often results in the stated “book value” being a fraction of true market value. This is particularly true for Japanese property companies that have low-cost, legacy land positions in central Tokyo. The new disclosure rules only require companies to report fair market value figures in the footnotes to the financial statements – unlike international financial reporting standards (IFRS) used by U.K. and Hong Kong companies, which require companies to report fair market value as “book value” and record changes in fair market value in the income statement. Daibiru Corp. (a 2% holding in the Fund) recently reported its year-end results and disclosed an unrealized gain on its leased property portfolio of Y97 billion, resulting in an adjusted book value of approximately Y1,400 per share. At quarter-end, Daibiru Common traded at Y902 – a 36% discount to adjusted book value. At 31 December, 2009, Daibiru Common traded at Y666, a 52% discount to adjusted book value.

Cash Reserves

At quarter-end, the Fund had approximately 22% of its assets in cash and equivalents. As highlighted in the most recent Letter to Shareholders, there is an opportunity cost associated with this cash balance since short-term cash yields are nearly zero. Nonetheless, Fund Management is unwilling to speculate and risk a permanent loss of capital by buying expensive securities in order to be fully invested. The Fund's cash position will prove beneficial if there is an adverse movement in the markets. First, the Fund would have substantial "dry powder" to take advantage of opportunities to buy cheap securities when others may be forced sellers. Second, although the Fund has had positive inflows since inception, the Fund would have adequate liquidity to meet any redemption requests without having to liquidate securities in a declining market.

Fund Management is confident that the Fund is properly positioned to take advantage of long-term economic growth in Asia while being conservatively exposed to markets where securities prices have outpaced economic fundamentals or where growth prospects seem marginal. The portfolio is comprised of common stocks of extremely well-financed companies that Fund Management believes are the "best in class" global real estate companies and should continue to outperform their competitors over the long term.

I look forward to writing to you again when we publish our third quarter report for the period ended 31 July, 2010.

Sincerely,

The image shows two handwritten signatures in black ink. The signature on the left is for Michael H. Winer, and the signature on the right is for Jason Wolf. Both signatures are written in a cursive, flowing style.

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 second quarter and semiannual 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 Position

Equity Securities

Alma Media
Cenovus Energy (spin-off from Encana)

Positions Increased

Allianz SE
Andritz AG
Antarchile SA
Asatsu DK
CIE Nationale A Portefeuille
Daibiru Corp.
Encana Corp.
Glaxosmithkline
Hutchison Whampoa
Leucadia National
LG Corp.
Lundbergforetagen AB
Mitsui Fudosan
Muenchener Rueckversicherungs AG
Netia SA
Newmont Mining
Resolution Ltd.
Sampo Oyj
Sanofi-Aventis
Tokio Marine Holdings
United Microelectronics
Viterra
WBL Corp.
Weyerhaeuser
Yuanta Financial Holdings

Position Eliminated

Montpelier Re

Position Decreased

Brit Insurance Holdings

PORTFOLIO DISCUSSION

We recently concluded our investment in Montpelier Re Common which Third Avenue first purchased in late 2007 during the early stages of the financial crisis. The thesis underlying this investment was that, as a sensibly run reinsurer operating in a period of declining pricing, the company would reduce its underwriting volume, thereby augmenting the portion of its capital that would be reasonably deemed to be in excess of its underwriting needs. This would allow the company to engage in a variety of shareholder friendly actions, such as holding the capital for a rainy day when an industry loss event (or events) would allow the company to deploy this capital in a more attractive underwriting environment. Alternatively, some of this excess capital could be returned to shareholders through a cash return of capital or a stock repurchase.

The company took the second path and repurchased roughly 14.4 million shares in 2008 and 2009 (14.5% of 2007 year-end shares outstanding). Regarding the underwriting operations, 2009 was an unusually benign year for weather-related loss events, which allowed the company to do so well, in fact, that the year's performance appeared to be an outlier even when accounting for the sensitivity of its results to weather conditions. Such an outcome almost seemed to be "as good as it gets," especially in light of the renewed weakening in rates and the low likelihood of persistently favorable underwriting conditions. The combination of the insured losses since year-end from the Chilean earthquake, the winter storm Xynthia in Europe, and most recently the drilling rig disaster in the Gulf of Mexico appear to be highlighting how atypically favorable the year 2009 had been. Our investment thesis having played out as expected, these considerations contributed to our decision to close the book on this particular investment – a profitable one – in the context of the Fund's continued investments in other well-capitalized reinsurance businesses (most notably, that of Munich Re).

Relative Strength Matters

A cornerstone of the Fund's investment approach is the avoidance of any manner of risk by which we are exposed to the possibility of permanent impairment of the value of the businesses we own. As a result we prefer investing in financially strong companies which have a relative absence of liabilities, both on and off the balance sheet. Our evaluation of a company's financial strength does not follow a mechanical, check-the-box process which relies, for example, on hard and fast, reported statistics meeting predetermined benchmarks. Instead, we try to think beyond the disclosed numbers and understand the environment in which the company operates and its dynamics. Very often, this leads us to consider matters of relative financial strength, with an eye toward evaluating a company's financial position in the context of its industry and competitors.

Considering matters of relative strength has at times enabled us to identify and sidestep potential risks which might have been otherwise overlooked, had we merely examined an individual company's financial position in isolation and based upon it meeting objective, statistical criteria. For example, consider a situation in which a number of companies within a given industry boast uniformly strong balance sheets. While a cursory evaluation of the financial strength of any one of these companies, in isolation, would likely provide comfort in the form of a perceived lack of financial risk, this perception could ultimately prove misguided. This is because such an approach fails to consider the fact that a company's financial position is dynamic, and could change meaningfully over time due to a number of reasons, including conditions faced by competitors and the industry as a whole.

Within a uniformly well-financed industry lurk some less than obvious dangers. For example, widespread financial strength may lay the foundation for a price war that could wreck the financial position of all participants. We do not need to look back far for an example, as such a scenario played out in 2007 in the Dynamic Random Access Memory industry (DRAM)

where, after a few years of unusually high profits, many manufacturers boasted strong cash positions and minimal debt. When examined separately, they seemingly displayed more than adequate financial strength; however, when considered in light of the industry structure and dynamics, a more worrisome picture emerged. The DRAM industry is highly cyclical; in downturns, producers do not curtail production until prices fall below variable cash cost (and sometimes not even at that point).

We feared that the abundant financial resources of the industry would be used to fund high and persistent cash losses in the next downturn, and that the benefit of strong balance sheets would accrue to customers rather than to shareholders as DRAM manufacturers undercut each other. This has, indeed, turned out to be the outcome, as the DRAM industry experienced one of the longest and most severe slumps in its history. Those companies that survived the downturn have destroyed much of their previous, absolute financial strength along the way. At the risk of generalizing, we are wary of industries where balance sheets look uniformly good across the board, especially if the industry is subject to cyclical swings and has a low variable cost structure.

The converse of the situation highlighted above can also be true: even a less than stellar financial position, on an absolute basis, can be more than adequate in an industry in which other participants are much weaker. As an example, consider the North American building products distribution industry, a highly fragmented field where a significant portion of industry capacity comes from small operators which are usually overleveraged and financed by bank loans. Here we have seen companies with less-than-pristine balance sheets take market share and opportunities from more stressed competitors.

Industries with a wide dispersion of financial quality among its various players can provide interesting opportunities for the financially stronger participants; excess capacity can be removed quickly and without extreme pain. The “last man standing” in such a fight does not have to be super strong, and the injuries inflicted on him by weak adversaries should heal quickly.

Furthermore, the discrepancy in financial strength among an industry’s players may offer attractive acquisition opportunities. Companies with weaker balance sheets could be faced with a stark choice between bankruptcy and a distressed sale of assets to better financed competitors. One of our portfolio companies, Seino Holdings of Japan, took advantage of the difficult economic environment in early 2009 to acquire a competitor, Seibu Transportation, from a highly motivated seller – a holding company that had been delisted, taken over, and reorganized by private equity investors. Not surprisingly, there were not many bidders willing and able to finance an offer for a Japanese trucking company in the middle of the deepest Japanese recession in decades. Seino’s cash pile enabled it to purchase Seibu Transportation at a very attractive standalone valuation, even without accounting for any cost synergies coming from consolidation of their overlapping networks. Seino provides an example of why we tend to be attracted to companies which are financially strong relative to their competitors – specifically, because such relative strength can potentially empower and enable a company to take actions which lead to an industry’s rationalization, whether by improving efficiency through the wringing out of excess capacity, by encouraging more rational pricing, or through any other form, with these benefits ultimately accruing to shareholders.

Relative financial strength is not a static indicator. Companies with good track records on execution, but hampered by their lack of financial strength, may be able to improve their balance sheets with a timely capital raising, whether by private placement, rights issue, or other forms. This capital can then be used to acquire distressed or undervalued assets and drive industry consolidation, with such a company ideally benefitting both from cost synergies from eliminating duplicate costs and assets) and from improved industry dynamics as the number of competitors declines (especially as distressed competitors often underprice their products in a desperate attempt to generate cash and stave off bankruptcy). We have been willing to back a company’s efforts to raise capital to be used for such purposes, so long as we are satisfied with management’s track record and the opportunity is compelling.

Third Avenue has in the past supported companies in our portfolio when they made a compelling case for a capital raising in order to acquire weaker competitors. Such was the case with Viterra Inc. (then called Saskatchewan Wheat Pool Inc.) when it announced its bid

for Agricore United in November 2006. We participated in a private placement that was used to raise part of the acquisition money. We expect that further such opportunities will arise, and we have sufficient cash in the portfolio to fund reasonably sized capital raisings. Obviously, we cannot forecast the timing, size, and actual participants in such offerings, but would not be surprised to see resource conversion activities in North American building products and distribution industries, in U.K. life insurance, and in Australian agricultural supply chains, among others.

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