



**Third Avenue Value Fund**

**Third Avenue Small-Cap Value Fund**

**Third Avenue Real Estate Value Fund**

**Third Avenue International Value Fund**

**Third Avenue Focused Credit Fund**

**PORTFOLIO MANAGER COMMENTARY  
AND ANNUAL REPORT**

OCTOBER 31, 2011

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If you should have any questions, please call 1-800-443-1021, or visit our web site at: [www.thirdave.com](http://www.thirdave.com), for the most recent month-end performance data or a copy of the Funds' prospectus. Current performance results may be lower or higher than performance numbers quoted in certain letters to shareholders.

M.J. Whitman LLC, Distributor. Date of first use of portfolio manager commentary: November 29, 2011.



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**FOURTH QUARTER PORTFOLIO MANAGER COMMENTARY**

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October 31, 2011



## Letter from the Chairman (Unaudited)



**MARTIN J. WHITMAN**  
CHAIRMAN OF THE BOARD

Dear Fellow Shareholders:

In the main body of this letter I discuss, after re-reading Graham and Dodd's writings on Value Investing, how the various Third Avenue Fund managers are followers of Graham and Dodd, and how these managers are different. Before doing that, there is one macro point in which I believe strongly, and of which you should be aware. There is no way that I can see that those countries involved with the Euro can be made credit-worthy unless all European Sovereign Debt is assumed, or guaranteed, by each member country including, especially, Germany. Such an amalgamation would make Euro Sovereign Debt more comparable to U.S. Treasuries than is now the case. I do not know how the forthcoming European upheavals will work out. But cash rich economies with a plethora of investable funds ought to do okay, provided they are opportunistic. It is comforting to know that so much of Third Avenue Management's common stock investments are in companies operating in Hong Kong, mainland China, South Korea, Canada, Brazil, Australia and Sweden.

### **GRAHAM AND DODD** **REVISED, UPDATED AND PLACED IN CONTEXT**

Benjamin Graham and David Dodd ("G&D") were prolific writers, publishing volumes in 1934, 1940, 1951, 1962 and by Ben Graham alone in 1971. A principal problem with G&D is that almost everyone in finance talks about G&D but very few seem to have actually read

G&D. This letter is based essentially on the 1962 edition, *Security Analysis Principles and Technique* by Graham, Dodd and Cottle; and the 1971 edition of *The Intelligent Investor* by Graham.

Because so many have such a superficial understanding of G&D, their names have become synonymous with the term "value investing". This, in turn, has led to some confusion about what it is that value investors do, particularly, the way that value investing in equities is practiced at Third Avenue Management ("TAM"). Though we are influenced by G&D, our methods, developed over the life of the firm, are basically different.

Value Investing is one area of fundamental finance ("FF"). It involves investments in marketable securities by non-control outside passive minority investors ("OPMIs"). The other areas of Fundamental Finance involve the following:

- Distress Investing
- Control Investing
- Credit Analysis
- First and Second Stage Venture Capital Investments

Modern Capital Theory ("MCT"), like Value Investing, focuses on investments by OPMIs. Unlike Value Investors, MCT focuses strictly on near-term changes in market prices. In a number of special cases the factors important in MCT are also important in Value Investing. MCT is discussed briefly at the end of this paper.

G&D made three great contributions to Value Investing:

- 1) G&D distinguished between market price and intrinsic value (a concept that still seems alien to MCT).
- 2) G&D pioneered the concept of investing with a margin of safety.
- 3) G&D promulgated the belief that investment decisions ought to be based on ascertainable facts. (This was before the modern era – say after 1964, when for OPMIs the amount of factual material

## Letter from the Chairman (continued) (Unaudited)

exploded and the reliability of factual materials became much enhanced).

The equity analysts at Third Avenue Management tend to follow the basic rule promulgated by G&D: acquire at attractive prices the common stocks issued by primary companies in their industries.

Both G&D and MCT focus on the investment process from the points of view of the OPMI. Little, or no, attention is paid to other points of view; and the particular factors needed to understand the dynamics driving individual companies, particular industries, control persons and putative control persons, as well as creditors. This emphasis on the OPMI is in sharp contrast to other areas of FF – control investing, distress investing and first and second stage Venture Capital. Here, the analysis does not focus on OPMI needs and decisions, but is rather a four-legged stool:

- (1) Understanding the OPMI's needs and desires.
- (2) Understanding the company in some depth.
- (3) Understanding the needs and desires of control persons and entities, present and future.
- (4) Understanding the needs and desires of creditors.

Open-end funds, *i.e.*, mutual funds (Investment Companies operating under the Investment Company Act of 1940 as amended), are required to operate mostly as OPMIs. Third Avenue, in the management of various portfolios is basically, but not wholly, an OPMI. But Third Avenue's analytic techniques, unlike G&D's, are the same as control investors, distress investors and creditors. The emphasis is on understanding in-depth, from the bottom up, the company and the securities it issues; and also the

character and motivations of managements, other control entities, and others senior to the common stock, ranging from secured lending by commercial banks to trade creditors to holders of subordinated debentures to holders of preferred stocks. There is a de-emphasis on top-down factors emphasized by G&D and MCT – general stock market levels, near-term stock price movements, a primacy of the income account, a primacy of dividend income, quality or growth as defined by general recognition of such in the general market.

Many of the best value investors graduate into other areas of financial fundamentalism, especially control investing and distress investing. Names of such "graduates" which come to mind are Warren Buffet, Sam Zell, Carl Icahn, Bill Ackman and David Einhorn.

Analysts at TAM think like owners, like private acquirers or like creditors, emphasizing elements of FF that differentiate Third Avenue from G&D. For example, G&D emphasize the importance of dividends for

OPMIs. In contrast, FFs look instead at the corporation optimizing its uses of cash. In general, corporate cash can be dispensed in three areas:

- 1) Expand assets
- 2) Reduce liabilities
- 3) Distribute to equity owners
  - (a) via dividends
  - (b) via stock buybacks

There are comparative advantages and disadvantages for dividends and buybacks, which are never discussed by G&D, because they only mention the stock buyback alternative as it relates to stock options for management.

**“Analysts at Third Avenue Management think like owners, like private acquirers or like creditors, emphasizing elements of fundamental finance that differentiate Third Avenue from Graham and Dodd.”**

## Letter from the Chairman (continued) (Unaudited)

There is no discussion by G&D of stock buybacks as a method of enhancing a common stock's market price over the long run, giving the management the flexibility to retain cash in troubled times, and also increasing the percentage ownership interest of each non-selling stockholder.

From a corporate point of view, distributing cash to shareholders has to be a residual use of cash, compared to expanding assets or reducing liabilities most of the time. Probably the most important exception to this exists where the payments of common stock dividends in cash gives a corporation better long-term access to capital markets than would otherwise exist. This seems to be the case for companies which, by the nature of their operations, consume cash in order to create wealth and are required to raise outside equity capital periodically, *e.g.*, integrated electric utilities and certain financial companies.

G&D in their analysis of common stocks emphasize the following factors:

- 1) Primacy of the income account – forecast future earnings relying heavily on the past earnings record;
- 2) Dividend distributions;
- 3) The general level of securities markets;
- 4) Outlook for the economy;
- 5) Industry identifications;
- 6) General market opinion as to the quality and/or growth prospects of an issuer.

In a G&D primacy of the income account approach (or any other primacy of the income account approach) managements are appraised almost solely as operators. For FF, managements are appraised using a three pronged approach:

- 1) Management as operators;
- 2) Management as investors;
- 3) Management as financiers;

In appraising managements as financiers, the emphasis is on a primacy of credit-worthiness for either the company or for various securities in the capital structure.

G&D agree that the securities of secondary companies and workout situations can be attractive for Enterprising OPMIs, whom they distinguish from Defensive OPMIs. However, very little is really voiced by G&D as to how secondary situations and workout situations ought to be analyzed, compared with their views on how to analyze the securities of primary companies, other than to state that secondary common stocks should not be acquired except at prices of two-thirds or less of underlying value.

G&D believe it is important to guard against market risk, *i.e.*, fluctuations in security prices. Thus, it becomes important in their analysis to have views about general stock market levels. FF practitioners guard only against investment risk, *i.e.*, the problems of companies and/or the securities they issue. In FF analysis, market risk is mostly ignored except when dealing with “sudden death” securities – derivatives and risk arbitrage securities; when dealing with portfolios financed by heavy borrowing; and when companies have to access capital markets, especially equity markets.

In the analysis of performing credits acquired at or near par, emphasis by G&D is on quantitative data relevant to overall interest coverage, rather than any emphasis on covenants and/or collateral. FF emphasizes covenants and collateral in credit analysis. No matter how favorable the quantitative data, *e.g.*, coverage and debt ratios, FF practitioners examining most corporate credits assume that the quantitative facts are likely to deteriorate over the long-term life (say a five to 15-year life) of a debt instrument. Such an assumption creates a margin of safety for a creditor.

In valuing assets, G&D seem to rely strictly on a classified balance sheet produced according to Generally Accepted Accounting Principles (“GAAP”). Thus, inventory is viewed as a current asset and real property as a fixed asset. In FF, the analysis tends to get different results. In the case of a retail chain which is a going-concern, inventories

## Letter from the Chairman (continued) (Unaudited)

usually are a fixed asset of the worst sort – subject to mark-downs, shrinkage, obsolescence, misplacement. On the other hand Class A, fully-leased income-producing office buildings tend to be current assets, probably an area where price agreement can be reached via one phone call.

For FF, GAAP in the U.S. is an essential disclosure tool, the best objective benchmark available to the OPMI analyst in the vast majority of cases. However, GAAP and related accounting measures, unadjusted by the analyst, are almost always misleading, in one context or another.

G&D stress the importance of adjusting GAAP to determine “true earnings” for a period. In FF, the analyst always adjusts GAAP, not only to determine earnings from operations, but also to determine credit worthiness and asset values.

GAAP recognizes three classifications on the right hand side of the balance sheet: liabilities; redeemable preferred stock; and net worth. In economic fact, there are many liabilities that have an equity component. It is up to the analyst to decide what percentages of certain liabilities are close to equivalent to payables and what percentage are close to equivalent to net worth. Take the liability account, deferred income taxes payable, in a going concern. If the cash saved from deferring income taxes are invested in depreciable assets, the tax may never become payable. However, the deferred tax payable account can never be worth as much as tax paid retained earnings (part of net worth) because the tax may someday become payable, especially if the company engages in resource conversion activity, such as being acquired in a change of control transaction. So, maybe there is as much as a 90% equity value in the deferred income tax accounts payable. On the other hand, deferred income taxes payable can never be as much of a liability as current accounts payable or interest bearing debt. Maybe, at the maximum, there is a 5% to 10% equity in the deferred tax payable account. GAAP is based on a rigid set of rules; it is no longer principles based. The appraisal of an account, such as deferred income taxes payable, is in the province of the users of financial statements, not the preparers of financial statements.

For G&D values for stockholders are created by earnings which are then valued in the market by a price earnings ratio (or capitalization rate) and/or dividends, which are valued by the market on a current yield basis.

In FF, stockholder values flow out of creating corporate values. There are four different ways corporate values are created:

- 1) Cash flows available to security holders. This is probably created by corporations fewer times than most people think.
- 2) Earnings, with earnings defined as creating wealth while consuming cash. This is what most well-run corporations do and also most governments do. Earnings cannot have a lasting value unless the entity remains creditworthy. Also, in most cases, in order to maintain and grow earnings the corporation or government is going to have to have access to capital markets to meet cash shortfalls.
- 3) Resource Conversion. These areas include massive asset redeployments, massive liability redeployments and changes in control. Resource conversion occurs as part of mergers and acquisitions, contests for control, the bulk sale or purchase of assets or businesses, Chapter 11 reorganizations, out of court reorganizations, spin-offs, and going privates including leveraged buy outs (“LBOs”) and management buy outs (“MBOs”).
- 4) Super attractive access to capital markets. On the equity side, this includes initial public offerings (“IPOs”) during periods such as the dotcom bubble. On the credit side, this includes the availability of long-term, fixed rate, and non-recourse financing for income producing commercial real estate.

G&D do not distinguish between cash return investing and total return investing. In cash return investing, returns are measured by current yield (or dividend return), yield to maturity, yield to worst or yield to an event. In total return investing, returns are measured in price paid relative to

## Letter from the Chairman (continued) (Unaudited)

cash returns plus (or minus) capital appreciation (or depreciation) in given periods of time. Many portfolios have to be invested only for cash return into high-grade credits, *e.g.*, bank securities portfolios; insurance company portfolios, at least as to the amount of liabilities; certain pension plans. (In the current low interest environment, it seems almost impossible to be a rational cash return investor.) For G&D, the higher the dividend, the higher price at which a common stock would sell. G&D imply that the higher dividend issue should be acquired. G&D ignore that the lower priced security may be more attractive to the total return investor because of the lower price and the larger amount of retained earnings.

Two facts stand out in comparing dividend income in the U.S. with interest income:

- Dividends are generally tax-advantaged in the U.S., with individuals currently subject to a maximum federal tax rate of 15% on qualified dividends; and corporate taxpayers are generally entitled to a 70% exemption from income tax on dividends from domestic companies.
- In the U.S., as a practical matter, no one can take away a creditor's right to a contracted interest payment (or other cash payment) unless that individual so consents or a court of competent jurisdiction, usually a bankruptcy court, suspends that payment.

Most OPMs involved with common stock believe in substantively consolidating the company with its common stock owners. They believe they are buying General Electric ("GE"), not GE common stock. In FE, the company is a stand alone, separate and distinct from its shareholders, its management, its control group and its creditors. Essential for understanding the dynamics of many companies are not only consolidated financial statements but, also, how financial statements are consolidated. In many cases, it is important to know which liabilities of particular parents or subsidiaries are assumed or guaranteed by other companies which are part of a consolidation.

There are crucial differences between the analysis of companies as going concerns and the analysis of companies as investment vehicles. Most companies have both going concern characteristics and investment company characteristics. For both going concerns and investment vehicles, credit-worthiness is paramount for the company and its securities holders (except perhaps for adequately secured creditors). In going concern analysis, great weight is given to flows: whether cash or earnings. In investment vehicle analysis, great weight is given to asset values, especially realizable asset values. G&D emphasize going concerns except for a short description of Net-Nets, which focuses only on classified balance sheets and never mentions credit-worthiness or prospects for resource conversion, especially changes of control or going private.

The importance of market price depends primarily on two factors:

- (1) The form of investments in the portfolio.
- (2) How the portfolio is financed.

Generally, market prices are much less important if a portfolio consists of performing loans. Indeed, in some portfolios, *e.g.*, high-grade municipal bonds held by individuals, almost no attention is paid to market prices. Market prices are almost always important in evaluating common stocks, except in instances where the common stocks are being accumulated with the idea of obtaining control or elements of control. Market prices are almost always of critical importance where the portfolio is financed by margin borrowings where the collateral for the borrowing are the securities that make up the portfolio.

Analysts really ought not to use the word "risk" without putting an adjective in front of it. G&D really do not distinguish often enough between market risk and investment risk, even though they recognize in measuring market risk that "Mr. Market" tends to be utterly irrational some of the time. Market risk refers to short-term fluctuations in securities prices. Investment risk refers to

## Letter from the Chairman (continued) (Unaudited)

something going wrong with the company issuing securities or with the securities (*e.g.*, dilution).

Sometimes analysis takes funny turns. In a poorly financed company, would one prefer to have had the company issue subordinated debentures or a preferred stock which is, of course, subordinated to the debentures? If there is a failure to pay interest or principal on a subordinated debenture, the one remedy available to the subordinated creditor is to declare an event of default. Then, either the indenture trustee, or usually 25% of the subordinated creditors, can accelerate the debt, declaring it due and payable. For a subordinate class, the right to accelerate most often is the right to commit suicide, because this action would likely result in a reorganization or liquidation where almost all, or all, the value will go to senior creditors. In contrast to an event of default, the preferred shareholder accumulates dividend arrearages. The company has less need to reorganize or liquidate. If an investor is making a capital infusion into a troubled company, the investor frequently is much better off from a safety point of view by having the issuer issue a preferred stock, rather than a subordinate.

G&D seem utterly silent about the compensation of promoters, which has to be understood if one is to understand Wall Street and/or corporate managements. Economists have it wrong when they say, "There is no free lunch". What they should say is, "Somebody has to pay for lunch". Those who most commonly pay are OPIMs.

In writing of growth stocks, G&D seem to define growth as that which is generally recognized in the marketplace as growth. Many growth stocks do not have general recognition and so they sell at very modest prices. Current examples include Applied Materials, Brookfield Asset Management, Cheung Kong Holdings, Hang Lung Group and Wheelock & Co.

While ignored by G&D, I am of the strong opinion that common stock prices never have to be rational in the absence of catalysts that are the bedrock of resource conversion. The most important catalyst seems to be changes of control and/or potential changes of control. In

a conservative, non-control, FF investment, the common stocks contained in many TAM portfolios are those of blue-chip companies selling at substantial discounts from readily ascertainable net asset values ("NAV"). The exit strategies are based on the belief that NAVs will grow over the next three to seven years and that the discounts from NAV will not widen materially. Without catalysts, though, it appears as if the discounts from NAV are just a random walk at any particular time.

Where there are no prospects for changes of control or no Wall Street sponsorship (induced by generous compensation arrangements for managers and securities sales persons), prices in OPIM markets can be utterly irrational persistently. The very best companies whose common stocks are publicly traded and where no catalyst exists usually sell at discounts to NAV. Sometimes these discounts from NAV reach 50% or greater.

Many of these companies are extremely well financed and have most impressive long-term records of increasing NAVs and earnings per share persistently. Such companies include Brookfield Asset Management, Capital Southwest, Investor AB, and Cheung Kong Holdings. In contrast, there is a huge market for private equity that OPIMs spend billions of dollars to get into and which are priced at substantial premiums above NAV. These are the hedge funds. Typically their premiums above NAV are reflected in the present value of promotes paid to hedge fund managers. Those promotes normally run to 2% of assets under management plus 20% of annual profits after the OPIMs receive a preferred return of, say, 6%. Further, lengthy lock-up periods tend to exist for OPIMs owning hedge funds, while the publicly-traded common stocks cited above are all marketable. From a value point of view, there does not seem to be any rational reason why the publicly-traded issues mentioned above should sell at steep discounts, while the hedge funds are priced at premiums.

In FF, potential resource conversions, catalysts, and access to capital markets are included in the valuation process. FF puts a great premium on the value of control, something

## Letter from the Chairman (continued) (Unaudited)

ignored by G&D. Asset values are very important insofar as they are readily ascertainable and exist in well-financed companies. Asset values are of limited importance in companies which are not well financed and where the principal assets are single purpose assets useful only to a going concern. These asset values can have a positive or negative effect on underlying value. They can help predict that future earnings will be high based on an ROE analysis (book value equals E) or they can indicate, and often do, very high overhead and very high fixed costs.

I largely disagree with G&D as to when low pricing creates a margin of safety. For G&D the margin of safety is created mostly by depressed prices in the general market. For FF, the margin of safety is derived largely from micro factors affecting a company and its securities, not general stock market levels. G&D seem to have a valid point in terms of guarding against market risk. FF is involved with investment risk, not market risk.

Diversification, quite properly, is key in a G&D analysis. It is an OPMI analysis which relies heavily on predicting future earnings and future dividends, something extremely hard to do well. In FF there is much less need for diversification which is viewed in FF as only a surrogate, and usually a damn poor surrogate, for knowledge, control and price consciousness. Non-control investors need a modicum of diversification, but nowhere near to the degree emphasized by G&D, MCT and academics in general.

G&D is mostly a tool for top-down analysis; while FF, in contrast, is almost completely bottom up. G&D describe how to forecast for a coming five to ten-year period:

- Formulate a view as to the general economic climate;
- Anticipate future earnings from the Dow Jones Index and the S&P 500;
- Forecast earnings for individual companies.

In FF, the essential analysis is of the individual company and the current price of the security versus its estimated

intrinsic value. Instead of just forecasting earnings, in FF, prognostications are made about:

- Operations;
- Potential resource conversions;
- Access to capital markets.

There are always trade-offs in FF investing. For example, a strong financial position in 2011 means one is dealing with a management willing to sacrifice returns on equity, for the safety and opportunism inherent in a strong financial position. Also, and this is a possibility that G&D do not consider, there are incentives for certain control people to prefer low prices for publicly-traded common stocks:

- 1) Those doing estate planning;
- 2) Those contemplating taking the company private, including LBOs; Going private entails cashing out public shareholders. To go private two conditions have to be fulfilled:
  - a) Low, to reasonable, price;
  - b) Strong finances – usually by the company itself, or it could be by the buyer or both;
- 3) Control person is insulated from changes in control.

MCT, like G&D, is focused on looking at economic and financial phenomena from the point of view of OPMI's. Unlike G&D, the entire focus of MCT is on near-term changes in market prices. MCT operates on the false assumption that markets are efficient for all participants. Unlike one of G&D's great conceptual teachings, MCT does not distinguish between market price and intrinsic value.

When it comes to corporate finance, MCT offers a valuable approach to project finance, but contributes little to corporate finance as visualized by FF participants. The concept of net present value ("NPV") is essential for understanding project finance. For a project to make sense, estimates of the NPV of cash outflows has to exceed the NPV of cash inputs. In terms of corporate finance, there can be

## Letter from the Chairman (continued) (Unaudited)

other reasons for undertaking (or not undertaking) a project than positive (or negative) net cash generation. In terms of capitalization, most MCT believers sign off on the Modigliani-Miller Theorem that if a management is working in the best interest of shareholders, the capitalization is a matter of indifference. The Modigliani-Miller Theorem is an absolute non-starter in FF. One can't measure credit-worthiness without also appraising capitalizations.

In FF, quarterly earnings reports tend to lack significance. However, there are instances where quarterly earnings reports can be important. This tends to be the case for most poorly financed companies, which need virtually continual access to capital markets. FF and MCT tend to coalesce when dealing in "sudden death" securities or absolutely credit worthy debt obligations. Such securities seem a special case and encompass the following:

- 1) Credit instruments without credit risk;
- 2) Derivatives;
- 3) Risk arbitrage, with risk arbitrage defined as situations where there is likely to be a relatively determinant workout in a relatively determinant period of time.

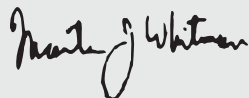
In much of what MCT and G&D do, the goal is to estimate the probable effect of certain items on near-term market prices in OPMI markets. Thus, G&D emphasize

the importance of determining "true" earnings for a period. In contrast, for FF, the possible or probable effect on OPMI market prices is pretty much ignored in most, but not all, cases. Rather, the goal in FF is to understand the underlying values of a business as well as the business' dynamics. Such understanding requires a study not only of flows – whether cash or earnings – but also, resource conversion possibilities, access to capital markets and the quality and motivations of management and control persons.

As practiced at Third Avenue, Value Investing is a component of Fundamental Finance that stresses intellectual rigor and a long time horizon. The contributions of Graham and Dodd to this approach have been valuable, but they are only part of the story.

I will write to you again when the 2012 First Quarter Report is published. Best wishes for a happy and healthy New Year.

Sincerely yours,



Martin J. Whitman  
Chairman of the Board

## Third Avenue Value Fund (Unaudited)



**IAN LAPEY**  
Co-Portfolio Manager of  
Third Avenue Value Fund

Dear Fellow Shareholders:

At October 31, 2011, the audited net asset value attributed to the 78,296,767 shares outstanding of the Third Avenue Value Fund Institutional Class (“TAVF”, “Third Avenue”, or the “Fund”) was \$44.08 per share. This compares with an unaudited net asset value of \$51.77 per share at July 31, 2011; and an audited net asset value of \$49.16 per share at October 31, 2010, adjusted for a subsequent distribution to shareholders. At November 28, 2011, the unaudited net asset value was \$40.13 per share.

### QUARTERLY ACTIVITY\*

Number of Shares	New Position
16,819,000 shares	Hutchison Whampoa Ltd. Common Stock (“Hutchison Common”)
	Positions Increased
1,000,000 shares	Applied Materials Inc. Common Stock (“Applied Materials Common”)
3,451,151 shares	Tellabs Inc. Common Stock (“Tellabs Common”)

### Number of Shares

969,212 shares

12,528,000 shares

99,000 shares

1,451,134 shares

787,500 shares

13,061,000 shares

37,000 shares

### Principal Amount

\$25,000,000

### Positions Decreased

Brookfield Asset Management Inc. Common Stock (“Brookfield Common”)

Cheung Kong Holdings Ltd. Common Stock (“Cheung Kong Common”)

Henderson Land Development Ltd. Common Stock (“Henderson Common”)

Investor AB Common Stock (“Investor Common”)

Toyota Industries Corp. Common Stock (“Toyota Industries Common”)

Wharf Holdings Ltd. Common Stock (“Wharf Common”)

Wheelock & Co Ltd. Common Stock (“Wheelock Common”)

MBIA Insurance Corp. 14% Surplus Notes (“MBIA Surplus Notes”)

During the quarter, the Fund initiated a position in Hutchison Common and added to our positions in Applied Materials Common and Tellabs Common, as pricing opportunities arose. Hutchison Whampoa is a Hong Kong-based conglomerate with ports, telecommunications, retail, infrastructure, real estate and energy operations primarily in Asia and Europe. The company has a strong financial position, and the shares were purchased at a significant discount compared to our estimate of net asset value. Tellabs and Applied Materials are both extremely well-financed high-tech companies, and their common stocks were purchased at significant discounts compared to our estimates of net asset value. Sales made during the quarter were driven primarily by portfolio considerations.

\* Portfolio holdings are subject to change without notice. The following is a list of Third Avenue Value Fund’s 10 largest issuers, and the percentage of the total net assets each represented, as of October 31, 2011: Henderson Land Development Co., Ltd., 15.36%; Cheung Kong Holdings, 10.75%; Posco (ADR), 8.65%; Wheelock & Co., Ltd., 4.83%; Brookfield Asset Management, Inc., 4.74%; Investor AB, 4.68%; Toyota Industries Corp., 4.51%; Hutchison Whampoa, 4.42%; Hang Lung Group, Ltd., 4.23%; and Covanta Holding Corp., 3.72%.

## Third Avenue Value Fund (continued) (Unaudited)

### DISCUSSION OF 2011 PERFORMANCE

We have received numerous inquiries from our fellow shareholders regarding the Fund's disappointing 2011 performance. As the table below shows, there has been a massive divergence between the business performance and the stock performance of the companies in whose common stocks the Fund is invested. This has been most notable among our Hong Kong-based Real Estate and Holding Companies. 2011 would seem like a terrible year, if measured only by the common stock performance of these companies. However, the underlying businesses have actually performed very well. Specifically, despite headwinds from government measures to curb residential housing prices in both Hong Kong and China, our companies have generated property development operating margins ranging from 25.9% to 56.5%.

Although we expect margin compression going forward, this business should remain profitable, owing to healthy underlying demand for residential properties in Hong Kong and tier-two cities in China and low land costs for our companies. Leasing income growth for the first half of 2011 ranged from 11.7% to 22.6% driven by healthy commercial real estate fundamentals, particularly for Hong Kong shopping centers (retail sales in Hong Kong are up 25% year to date), and good progress in leasing newly developed properties. Our companies continue to have very strong financial positions; yet, their common stocks trade at significant discounts to reported net asset value, with the exception of Hang Lung Group. This is due to the fact that Hang Lung's large inventory of Hong Kong residential properties is carried at cost on the balance sheet as opposed to fair value, which is significantly higher.

### Third Avenue Value Fund Hong Kong Real Estate and Holding Companies

	YTD Stock Performance	Common Stock Price	1H 2011					
			NAV <sup>1</sup>	Discount/ (Premium)	Property Development Margin	Leasing Income Growth	Net Debt to Capital	Insider Ownership
Cheung Kong Holdings	-18%	\$97.80	\$128.35	24%	26.8%	12.8%	3.5%	43%
Hang Lung Group <sup>2</sup>	-7%	\$47.70	\$ 43.72	-9%	NM	11.7%	NM	37%
Henderson Land Development	-19%	\$43.05	\$ 75.15	43%	25.9%	22.6%	16.3%	61%
Wharf Holdings <sup>3</sup>	-28%	\$42.00	\$ 61.59	32%	42%	14%	15.2%	31%
Wheelock <sup>3</sup>	-27%	\$23.10	\$ 54.57	58%	56.5%	13.3%	6.3%	59%

Note: Common Stock Prices as of October 31, 2011. All figures in Hong Kong dollars.

<sup>1</sup> Reported Net Asset Value as of 6/30/11.

<sup>2</sup> Leasing growth based on the 12 months ended 6/30/11 (June 30 fiscal year end).

<sup>3</sup> Excludes Wharf's net debt (non-recourse to Wheelock) and Wheelock Properties' net cash.

NM: Not Meaningful

Source: Company reports, Bloomberg.

The widening of discounts and weak 2011 stock performance does not appear to be attributable to a deterioration in long-term business fundamentals for these companies. Although the 2012 earnings outlook has been negatively impacted by the government measures mentioned above and a potential global slowdown, I expect the companies to remain profitable. Furthermore, the companies' strong financial positions should enable

them to take advantage of opportunities created by softening macroeconomic conditions. Recently, Hang Lung Properties did just this, purchasing land in China (Kunming) for the first time since 2009.

The Fund's continued concentration in these common stocks is a reflection of the tremendous value that we see in these issues. Although the recent market turmoil has presented other attractive opportunities, the massive

## Third Avenue Value Fund (continued) (Unaudited)

divergence between business and stock performance for these stocks has driven our decision to maintain a high level of concentration.

One problem with our investments in the common stocks of Hong Kong real estate and holding companies is that they lack visible catalysts. For example, the companies do not appear to be takeover candidates because of very large insider ownership (37% to 61% for our largest holdings). Furthermore, Hong Kong Stock Exchange rules prohibit cash-out mergers unless 90% of the non-participating shareholders vote in favor of the transaction (“the 90% rule”). Marty Whitman, co-manager of the Fund, recently sent a letter to the Hong Kong Exchange proposing that the existing 90% rule be replaced by “the 50% rule.” This would permit cash-out mergers upon an affirmative vote of at least 50% of non-participating shareholders provided that the price offered was at least 40% above the average closing price for the 20 trading days prior to the announcement. While this letter is not likely to be acted upon, it demonstrates that Third Avenue Management will not sit idly by when its investments are underperforming.

While I can't predict the market, I do believe that our focus on fundamentals will be rewarding in the long term, as the common stock prices better reflect intrinsic values as they have in the past. Marty and I have seen this happen many times over our combined roughly 75 years in the market. Despite the broad widening of discounts in 2011, the Fund has a profit in its portfolio of Hong Kong Real Estate and Holding Companies, as of October 31st.

### **STOCK MARKET WEAKNESS CREATES BUYING OPPORTUNITY FOR LONG-TERM INVESTORS**

The market weakness in 2011 appears to have created a great buying opportunity for investors focused on long-term capital appreciation. Most notably, the Chairmen and Chief Executive Officers of most of our Hong Kong holdings have been increasing personal holdings:

- Lee Shau Kee, Chairman and CEO of Henderson Land Development Co., has spent more than US\$1.7 billion purchasing Henderson Common at an average price of about HK\$55.50 (versus the HK\$43.05 price as of October 31).
- Li Ka-Shing, Chairman and CEO of Cheung Kong Holdings Ltd., has purchased 5.9 million shares of Cheung Kong Common at an average price of about HK\$103 for about US\$79 million.
- Peter Woo, Chairman and CEO of Wheelock & Co., purchased 2.4 million shares of Wheelock Common at an average price of about HK\$23.50 for US\$7.3 million.

Likewise, during 2011, Marty and I have both continued to aggressively purchase Fund shares to increase our holdings in the Fund. As of October 31, 2011, Marty and I, together with our families, own more than 3,000,000 and 70,000 shares of the Fund, respectively. These shares are fully vested and were purchased with cash at market value (net asset value) at the time of purchase.

### **REVIEW OF TOP HOLDINGS**

In last quarter's letter, I noted that I would review the Fund's top holdings<sup>1</sup> in this quarter's letter. Below is a summary of some of the largest holdings in the Fund as of October 31st.

#### **HENDERSON COMMON**

Henderson is a Hong Kong-based real estate and holding company. The company owns and develops commercial and residential real estate properties primarily in Hong Kong and also in mainland China. The company also owns a 40% stake in Hong Kong and China Gas, a publicly traded (Ticker: 3 HK) gas distributor in Hong Kong with a growing presence in China through its 64% stake in publicly-traded Towngas China (Ticker: 1083 HK). Henderson's stake in Hong Kong and China Gas,

<sup>1</sup> Holdings and weightings may change without notice.

## Third Avenue Value Fund (continued) (Unaudited)

which accounted for about 55% of its market cap, as of October 31, 2011, provides a strong source of dividend income (about HK\$ 1 billion a year). As the chart below indicates, Henderson's recent business performance has been impressive, as reported NAV has increased at a 13% Compound Annual Growth Rate ("CAGR") since 2005. In 2011, the company has benefitted from strong leasing performance at newly developed commercial properties in Hong Kong, Beijing and Shanghai. The company has maintained a strong financial position with a net debt to capital ratio of only 16%, as of June 30, 2011. As of October 31st, the shares traded at a 43% discount to reported NAV of HK\$ 75.15 per share as of June 30, 2011.



\* Including dividends.

### CHEUNG KONG COMMON

Cheung Kong is a Hong Kong-based holding company primarily engaged in real estate development in Hong Kong and China. The company also owns 50% of Hutchison Whampoa Common. Cheung Kong's reported NAV has compounded at an 11% CAGR since 2005, the lowest growth rate among our major Hong Kong holdings primarily due to disappointing results from Hutchison Whampoa's telecommunications business in Europe. However, this business has recently turned profitable, and we believe that Cheung Kong is very well positioned to generate strong NAV growth going forward, with a very strong financial position (3.5% net debt to capital ratio).

The company has historically been a savvy buyer and seller of assets, as most recently demonstrated by its 2011 sales of stakes in its ports and China commercial real estate operations at attractive prices that resulted in large gains. As of October 31st, Cheung Kong common traded at a 24% discount to reported NAV as of June 30, 2011. Hutchison Whampoa recently disclosed that recurring EBITDA increased 37% for the first nine months of 2011 compared to a year ago driven by growth across all of its businesses (Infrastructure +67%, Energy +75%, Property +24%, Retail +16%, Telecommunications +39%, Ports +9%).



\*Including dividends.

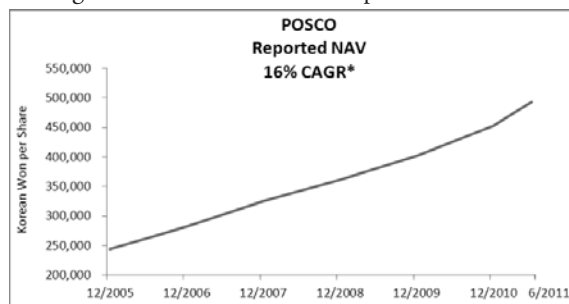
### POSCO ADR COMMON

Posco is a Korea-based holding company primarily engaged in steel production. In recent years, the company has been expanding its steel operations both in Korea and globally (Indonesia, India, Vietnam) and also investing in raw materials (iron ore and coal). Additionally, through the purchase of a 68% stake in Daewoo International, a publicly-listed (047050 KS) Korean trading and investment company, in September 2010, Posco enhanced its steel export business and acquired several other assets, such as natural gas reserves in Myanmar and a 24% stake in Kyobo Life Insurance. These other assets could be monetized in the future. Posco's reported book value has grown at an impressive 16% annual rate since 2005.

Despite weakening global demand for steel and elevated raw materials costs, Posco reported healthy third quarter

## Third Avenue Value Fund (continued) (Unaudited)

results with 10.9% operating margin for its steel business. The company continues to have a very strong financial position and we believe it should remain profitable, even if industry conditions continue to deteriorate, as it is a low cost producer. A weak near-term earnings outlook appears to be more than priced into the common stock, which trades at about nine times earnings and a 20% discount to reported book value.

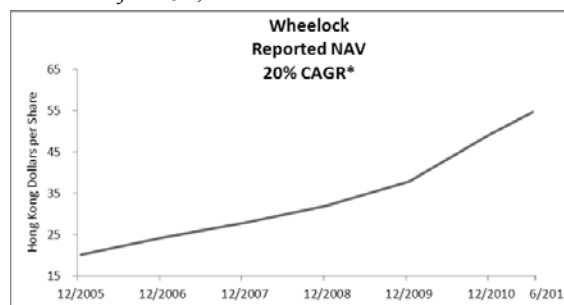


\* Including dividends.

### WHELOCK COMMON

Wheelock is a Hong Kong-based holding company. The company has a 50% stake in Wharf Holdings Ltd., a Hong Kong-based holding company with interests in commercial and residential real estate, ports and communications, whose common stock is also held by the Fund. Wheelock also has a 75.8% stake in Wheelock Properties Singapore (WP SP), a publicly-listed developer of luxury real estate in Singapore. Through its Wharf stake, the company controls the Harbor City and Times Square shopping centers in Hong Kong. These two properties, which accounted for 8.3% of all retail sales in Hong Kong during the first half of 2011, generated leasing income growth of 13% and 11%, respectively, in the first half of 2011 owing to robust retail sales in Hong Kong. The company's property development business has also performed well as evidenced by 53% growth in operating profit and a 56.5% operating margin in the first half of 2011. Wheelock's financial position remains very strong, with only a 6.3% net debt to capital ratio as of June 30,

2011. Despite this strong current and historical (20% annual growth in NAV since 2005) business performance, Wheelock common is down 27% year to date and as of October 31, 2011 traded at a 58% discount to reported NAV as of June 30, 2011.



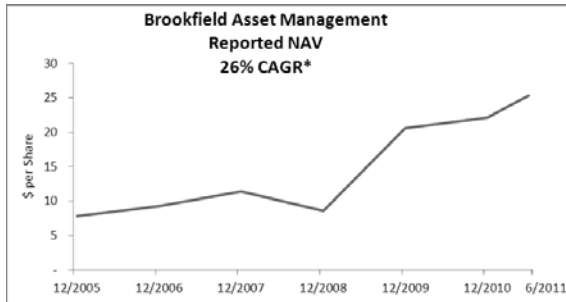
\* Including dividends.

### BROOKFIELD ASSET MANAGEMENT COMMON

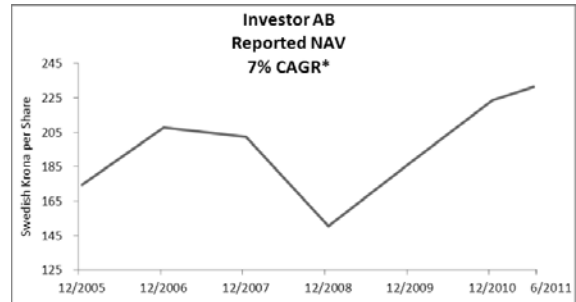
Brookfield is a Toronto-based asset manager focused primarily on commercial real estate, hydroelectric power and infrastructure. The company invests its own capital alongside its clients' and its impressive track record has enabled it to raise new capital in a difficult market over the last few years. Each business generates recurring cash flows that can both service reasonable debt levels and allow management to opportunistically invest in new opportunities.

During the financial crises in 2008-2009, Brookfield was able to avoid issuing dilutive equity owing to its strong financial position. The company also made transformative investments in General Growth Properties (a U.S. shopping mall REIT) and Babcock and Brown Infrastructure (an Australian energy and logistics company). Both investments utilized Brookfield's distress investing capabilities to recapitalize companies with valuable assets but over-leveraged balance sheets. As of this October 31, 2011, Brookfield Common traded at a 24% discount to reported intrinsic value, which includes the estimated value of the company's off balance sheet assets under management.

## Third Avenue Value Fund (continued) (Unaudited)



\* Including dividends. 2005-2008 NAV is based on GAAP. 2009-2011 NAV is based on IFRS.



\* Including dividends.

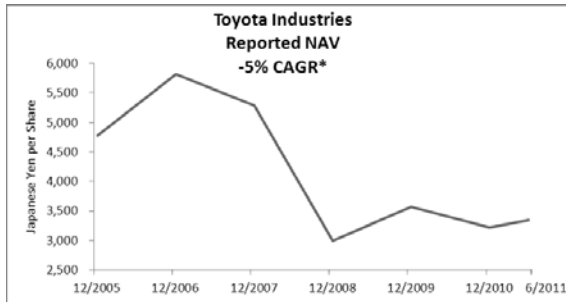
### INVESTOR AB COMMON

Investor AB is a Swedish investment company that is primarily invested in the publicly-traded common stocks of large European companies such as Atlas Copco (industrial production equipment), AstraZeneca (pharmaceuticals), SEB (banking), ABB (power and automation technologies) and Ericsson (communications equipment). The company also invests in private equity. Investor AB has minimal direct exposure to PIIGS nations (Portugal, Italy, Ireland, Greece and Spain), as most of its investments are focused on northern Europe. Investor AB has a respectable long-term track record, having generated 7% annual growth in NAV since 2005, despite the turbulent financial markets. During the most recent quarter, the company took advantage of its strong financial position and added to several of its holdings, including Nasdaq OMX, Aleris, Electrolux and ABB. As of October 31, 2011, the shares currently trade at a 34% discount to reported NAV of 189 Swedish Krona per share as of September 30, 2011.

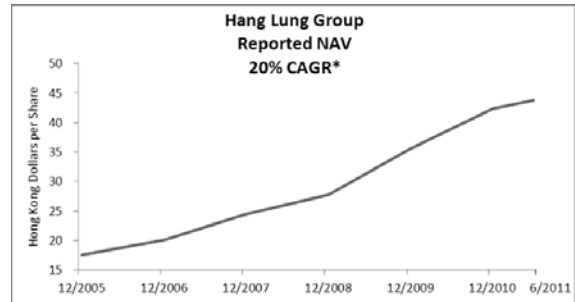
### TOYOTA INDUSTRIES COMMON

Toyota Industries (“Industries”) is a diversified manufacturing company that produces automobiles, engines, air conditioning compressors, materials handling equipment (e.g., forklifts), textile machinery and logistics related equipment. The company also has a portfolio of Japanese common stocks, the largest position in which is a 6.8% ownership stake in Toyota Motor. The decline in Industries’ NAV since 2005 has been primarily driven by the falling stock price of Toyota Motor common, which accounts for approximately 50% of its estimated NAV. Toyota Motor’s business performance has been disappointing in recent years owing to operating losses during the global recession in 2008-2009 and recent market share losses driven first by recall issues and more recently by production disruptions from the earthquake in Japan and floods in Thailand. As we have written in previous letters, we do not believe that these issues have resulted in a permanent impairment to Industries common. Nevertheless, we have reduced our holding by nearly two-thirds, as our other core holdings appear to have more attractive growth prospects and common stock appreciation potential. Industries remains extremely well financed and as of October 31, 2011, its shares traded at about a 40% discount from our estimate of NAV.

## Third Avenue Value Fund (continued) (Unaudited)



\* Including dividends.



\* Including dividends.

### HANG LUNG GROUP COMMON

Hang Lung Group is a Hong Kong-based holding company. Its primary investment is a 50% stake in Hang Lung Properties (“Properties”), whose common stock is also held by the Fund. Properties is engaged in real estate development and ownership in Hong Kong and China. The company is trying to replicate its tremendous success in Shanghai with its Plaza 66 and Grand Gateway shopping centers in major second tier cities in China (Shenyang, Jinan, Wuxi, Tianjin, Dalian). The initial results of this expansion have been encouraging as the Shenyang and Jinan shopping centers are fully leased despite a competitive leasing environment and rising construction costs. Properties also owns residential properties in Hong Kong (the HarbourSide and Long Beach condominium projects) that were developed on low-cost land purchased many years ago. These properties are being opportunistically sold to fund the company’s commercial expansion in mainland China. The company has a very strong financial position with a net cash position and recently utilized this financial flexibility to purchase land in China (Kunming) for the first time since 2009. The company’s impressive 20% annual growth in NAV since 2005 has been generated with virtually no leverage and is a tribute to Chairman Ronnie Chan’s long-term vision and execution.

In closing, Fund Management has been very pleased with the underlying business performance as demonstrated by healthy growth in reported NAV per share for each of the holdings, other than Toyota Industries Common. This growth was generated during a period that included the Great Recession and credit crunch of 2008 and 2009. Our companies benefitted by not having to issue dilutive equity during this period. The global economy appears to have entered another period of turbulence in late 2011 driven primarily by sovereign debt issues in Europe. Despite this challenging macro environment, our companies appear likely to continue generating attractive NAV growth over the next three to seven years, particularly if they can use their strong financial positions to make opportunistic investments as they have in the past. With discounts to NAV at historically wide levels, we believe that stock prices should, at a minimum, appreciate along with NAV growth over this period.

Thank you for your continued interest in the Fund. I shall write to you again when we publish our First Quarter Report dated January 31, 2012. Best wishes for a healthy and happy New Year.

Ian Lapey  
Co-Portfolio Manager  
Third Avenue Value Fund

## Third Avenue Small-Cap Value Fund (Unaudited)



**CURTIS R. JENSEN**  
**CHIEF INVESTMENT OFFICER &**  
**PORTFOLIO MANAGER OF THIRD AVENUE**  
**SMALL-CAP VALUE FUND**

Dear Fellow Shareholders:

At October 31, 2011, the end of the Fund's fiscal year, the audited net asset value attributable to the 39,143,649 common shares outstanding of the Third Avenue Small-Cap Value Fund Institutional Class ("Small-Cap Value" or the "Fund") was \$20.30 per share, compared with the Fund's audited net asset value of \$19.17 per share at October 31, 2010, adjusted for a subsequent distribution, and an unaudited net asset value at July 31, 2011 of \$21.68 per share. At November 28, 2011, the unaudited net asset value was \$19.40 per share.

### QUARTERLY ACTIVITY\*

During the quarter, Small-Cap Value initiated seven new positions, added to 24 of its 67 existing positions, eliminated two positions and reduced its holdings in 18 companies. At October 31, 2011, Small-Cap Value held positions in 61 common stocks, the top 10 positions of which accounted for approximately 27% of the Fund's net assets.

#### Number of Shares

289,800 shares

#### New Positions Acquired

Aeropostale, Inc. Common Stock  
 ("Aeropostale Common")

#### Number of Shares

544,300 shares

167,648 shares

41,012 shares

1,943,100 shares

418,437 shares

162,410 shares

2,712 shares

9,823 shares

63,350 shares

290,000 shares

35,000 shares

35,000 shares

67,497 shares

92,962 shares

#### New Positions Acquired (continued)

Canfor Corp. Common Stock  
 ("Canfor Common")

Emcor Group Common Stock  
 ("Emcor Common")

Haemonetics Corp. Common Stock  
 ("Haemonetics Common")

Segro PLC Common Stock  
 ("Segro Common")

SemGroup Corp. Common Stock  
 ("SemGroup Common")

Sensient Technologies Corp. Common  
 Stock ("Sensient Common")

#### Increases in Existing Positions

Ackermans & van Haaren N.V.  
 Common Stock ("AvH Common")

Alamo Group, Inc. Common Stock  
 ("Alamo Common")

Alexander & Baldwin, Inc.  
 Common Stock ("Alex Common")

American Eagle Outfitters, Inc.  
 Common Stock ("American Eagle  
 Common")

Broadridge Financial Solutions, Inc.  
 Common Stock ("Broadridge Common")

Cimarex Energy Co. Common Stock  
 ("Cimarex Common")

Excel Trust, Inc. Common Stock  
 ("Excel Common")

HCC Insurance Holdings, Inc. Common  
 Stock ("HCC Common")

\* Portfolio holdings are subject to change without notice. The following is a list of Third Avenue Small-Cap Value Fund's 10 largest issuers, and the percentage of the total net assets each represented, as of October 31, 2011: Lanxess AG, 3.83%; Viterra, Inc., 3.21%; Kaiser Aluminum Corp., 2.94%; Vail Resorts, Inc., 2.86%; Ingram Micro, Inc., 2.53%; Arch Capital Group, Ltd., 2.52%; Alexander & Baldwin, Inc., 2.40%; Madison Square Garden, Inc., 2.26%; Seacor Holdings, Inc., 2.22%; and P.H. Glatfelter Co., 2.17%

**Third Avenue Small-Cap Value Fund (continued)**  
**(Unaudited)**

<b>Number of Shares</b>	<b>Increases in Existing Positions (continued)</b>	<b>Number of Shares</b>	<b>Positions Reduced (continued)</b>
26,703 shares	ICF International, Inc., Common Stock ("ICF Common")	66,466 shares	Bristow Group, Inc. Common Stock ("Bristow Common")
41,489 shares	Ingram Micro Inc. Class A Common Stock ("Ingram Common")	1,182,436 shares	Cross Country Healthcare, Inc. Common Stock ("Cross Country Common")
158,400 shares	Lanxess AG Common Stock ("Lanxess Common")	800 shares	E-L Financial Group, Ltd. Common Stock ("E-L Financial Common")
22,352 shares	Leucadia National Corp. Common Stock ("Leucadia Common")	31,199 shares	Electro Scientific Industries Inc. Common Stock ("ESI Common")
25,662 shares	Liberty Media Corp. Starz Common Stock ("Starz Common")	169,382 shares	Encore Wire Corp. Common Stock ("Encore Common")
159,201 shares	Madison Square Garden, Inc. Class A Common Stock ("MSG Common")	661,511 shares	Investment Technology Group, Inc. ("ITG Common")
6,150 shares	Mantech International Corp. Common Stock ("Mantech Common")	516,478 shares	JAKKS Pacific, Inc. Common Stock ("JAKKS Common")
106,441 shares	Minerals Technologies Inc., Common Stock ("Minerals Technologies Common")	280,627 shares	K-Swiss, Inc. Common Stock ("K-Swiss Common")
225,000 shares	Oshkosh Corp. Common Stock ("Oshkosh Common")	450,000 shares	MEMC Electronic Materials, Inc. Common Stock ("MEMC Common")
340,285 shares	Pioneer Drilling, Inc. Common Stock ("Pioneer Common")	24,733 shares	National Western Life Insurance Co. Common Stock ("NWL I Common")
33,187 shares	SEACOR Holdings, Inc., Common Stock ("SEACOR Common")	2,476 shares	Park Electrochemical Corp. Common Stock ("Park Common")
83,387 shares	Stepan Co. Common Stock ("Stepan Common")	40,842 shares	P.H. Glatfelter Co. Common Stock ("Glatfelter Common")
174,979 shares	Superior Industries International, Inc. Common Stock ("Superior Common")	44,300 shares	Pharmaceutical Product Development, Inc. Common Stock ("PPD Common")
158,554 shares	Teleflex Inc. Common Stock ("Teleflex Common")	798,950 shares	Synopsys, Inc. Common Stock ("Synopsys Common")
50,000 shares	Vail Resorts, Inc., Common Stock ("Vail Common")	94,671 shares	Tidewater, Inc. Common Stock ("Tidewater Common")
84,360 shares	Westlake Chemical Corp. Common Stock ("Westlake Common")	385 shares	Unifirst Corp. Common Stock ("Unifirst Common")
	<b>Positions Reduced</b>	383,250 shares	Viterra, Inc. Common Stock ("Viterra Common")
2,946 shares	Alico, Inc. Common Stock ("Alico Common")		

## Third Avenue Small-Cap Value Fund (continued) (Unaudited)

Number of Shares	Positions Eliminated
676,647 shares	Imation Corp. Common Stock ("Imation Common")
2,067,000 shares	Sapporo Holdings Ltd. Common Stock ("Sapporo Common")

### QUARTERLY ACTIVITY

The markets this quarter for small company stocks resembled a ride on a Six Flags rollercoaster. For many investor/speculators seeking near-term gratification, that jolting ride likely induced something akin to Freud's<sup>1</sup> pleasure principle, as equities finished the period on a relatively high note, following a painful spell at the end of the summer. For us at Third Avenue, the heightened market volatility enabled us to patiently and opportunistically convert our idea inventory into seven new investments and add, broadly, to existing positions. Two of the more notable new investments in the portfolio are discussed below. During the quarter the Fund also benefited from bids for three of its portfolio holdings, including a bid for SemGroup, a position just initiated in August and described in more detail below. The bid for toymaker JAKKS Pacific by a large shareholder was rejected by management as inadequate, while the Fund's position in PPD Common, the subject of a leveraged buyout bid, was closed out at a tidy profit subsequent to quarter end.

SemGroup is the successor corporation to a company that filed for reorganization under Chapter 11 in 2008 (as well as CCAA, the Canadian version of Chapter 11), owing to commodity-related trading losses<sup>2</sup>. The reorganized company, which exited bankruptcy in 2009 and listed its stock on the NYSE in November 2010, used the reorganization process to divest under-performing assets and non-core businesses and to appoint a new management team and board of directors. Supported by a strong balance sheet, the company's operations today

center on fee-based oil and gas midstream services, including the operation of gathering systems, storage facilities and pipelines located in the Midwest and Rocky Mountain regions of the U.S., Canada and the U.K. The company boasts a number of strategic assets, including, for example: (i) a majority interest in the White Cliffs pipeline, the only pipeline delivering crude oil from Colorado's D-J Basin to the Cushing, Oklahoma interchange, the largest crude oil hub in North America; and (ii) a multi-product storage facility in Milford Haven, Wales that controls 23% of the independent storage in the U.K. and enjoys access to one of the only deep-water ports there.

There seem to be a number of levers by which management can grow and create value for equity holders, such as the Fund. For example, refinancing the company's high cost "exit financing" – a legacy of the bankruptcy – will significantly cut interest expense in future periods. More notably, the company is in the process of adding incremental capital to expand capacity at various facilities that should not only provide attractive returns, but also enhance cash generation and earnings power over time. Relative to the Fund's cost basis it appears that a large gap existed between the values being assigned to SemGroup's assets by the public market and those values afforded to similar sets of assets whose ownership, for example, resides in tax advantaged, publicly-listed Master Limited Partnership ("MLP") structures, suggesting the potential for a significant arbitrage opportunity. SemGroup's management has taken note, recently announcing steps to highlight and monetize the value of a portion of the company's assets, including via:

- i) exchanging the company's interest in its natural gas liquids business for as much as \$100 million in cash and an equity interest in publicly-listed NGL Energy Partners (completed November 1st); and

<sup>1</sup> Sigmund Freud published his book, *Beyond the Pleasure Principle*, in 1921.

<sup>2</sup> While relatively short in duration, SemGroup LP's bankruptcy mushroomed controversy, as its founder and CEO were alleged to have lost more than \$2 billion in hedged trading on oil futures.

### Third Avenue Small-Cap Value Fund (continued) (Unaudited)

- ii) the filing for the IPO of the company's SemCrude oil pipeline operations under the name Rock Rose Midstream, L.P.

Following closely on the heels of purchases of SemGroup Common by the Fund, Plains All American Pipeline LP (NYSE: PAA) made a bid for the entire company, at a premium to the Fund's cost, a bid that we and management view as undervaluing the current and future prospects of the company. As of this writing, SemGroup Common continues to trade above Plains' bid.

The Fund's investment in the shares of Segro Plc, another notable addition during the quarter, was identified by our real estate team. Segro is a London-listed real estate investment trust ("REIT") with a portfolio of high quality industrial and, to a lesser degree, office space located in proximity to major business centers and transportation hubs, such as London Heathrow airport. By assets Segro's £5.5 billion portfolio includes the following markets: UK (approximately 70%), Germany (9%), France (8%), Benelux (6%) and Poland (4%). Management has refocused the portfolio in recent years with the timely sale of its U.S. assets near peak levels, in 2007, and with the opportunistic purchase of competitor Brixton near trough levels, in 2009. Led by a new CEO, Segro management would appear to have several tools at its disposal to help close the large gap between net asset value ("NAV") and the current share price, including:

- (i) Narrow the focus of the portfolio via dispositions of all, or a part of, the European assets, where the strategy seems muddled and use the proceeds to continue deleveraging the balance sheet. To date, management has successfully disposed of subscale assets in parts of Europe.
- (ii) Use the proceeds from asset sales at capitalization rates below the implied yield on Segro's shares to repurchase its stock at a large discount to NAV, *i.e.*, tantamount to selling assets at one multiple and buying back shares that trade at a much lower multiple.

- (iii) Rental growth via improved occupancy (the company's occupancy remains low at 88%, versus peers in the mid-90s, attributable to the trough market acquisition of Brixton).

- (iv) Alternatively, Segro's presence in key logistics corridors and large share of desirable submarkets where development is restrained would make it an attractive takeover candidate for an institutional/Sovereign Wealth Fund or strategic buyer looking to expand its footprint within a high quality greater London industrial platform.

The Fund purchased Segro Common following a steep price decline that coincided with this summer's widening fears about the European credit crisis and its potential impact on anything and everything industrial. Segro Common was purchased at an implied cap rate (cash flow yield) in excess of 8% and at a discount to NAV in excess of 30%, suggesting healthy downside protection. The shares, with a dividend yield of 6% at current prices, provide an additional element of return while investors wait for the business to develop, though we would not be surprised to see management ultimately cut the dividend to a more reasonable level as a means of re-directing capital towards initiatives (i) or (ii) above.

#### ITS WILDNESS LIES IN WAIT

*"The real trouble with this world of ours is not that it is an unreasonable world, nor even that it is a reasonable one. The commonest kind of trouble is that it is nearly reasonable, but not quite. It looks just a little more mathematical and regular than it is; its exactitude is obvious, but its inexactitude is hidden; its wildness lies in wait."*

How do investors preserve and grow capital in a world where "wildness lies in wait?" I recently spoke with a group of the Fund's investors and tried to clarify the difference between risk and volatility and relayed the above quote from one of my favorite investing books, Peter Bernstein's *Against the Gods*. A dialogue around volatility and "risk" seems

## Third Avenue Small-Cap Value Fund (continued) (Unaudited)

particularly germane today, given a series of global macro developments in recent years whose tremors and aftershocks continue to buffet the market value of risk assets.

We have to be careful when we speak about risk because there are so many different types of risk in investing. At Third Avenue we insist on putting an adjective before the word “risk” to clarify what we mean, *e.g.*, we have to distinguish between market risk and business risk. If, for example, one were considering an investment in an airline common stock, you might consider such business risks as commodity risk, labor risk, and the competitive environment. These things are quite different from how the stock in question might, or might not, perform.

One thing that is less clear is the attempt by so many to equate risk with volatility. As James Montier of GMO once put it “The idea that the risk of an investment, or indeed, a portfolio of investments can be reduced to a single number is utter madness<sup>3</sup>.” Volatility fails as a risk measure, until it is coupled with a consequence. In other words, the risk in a portfolio is that it fails to meet the liabilities or needs of its owner at some point when an essential outlay is needed. For example, if you are a pension fund or endowment trying to meet obligations five to 10 years out, an equity-like allocation seems to make a great deal of sense. On the other hand, if you are a family with a high school junior saving for college, it likely does not make sense to have the college money allocated to equities, given that it will be needed in a year or so. So even volatility, a widely touted measure of risk, falls short in defining risk.

The Third Avenue philosophy focuses heavily on protecting against investment risk, *i.e.*, a permanent loss of

capital. It is admittedly less robust in insulating us from the volatility inherent in the market. In fact, I would suggest volatility can be the friend of the long-term investor, insofar as it enables opportunistic entry and exit points in a security.

The question for anyone considering an investment in the Fund given all of this is how is the portfolio positioned today?

To the extent that greater volatility demands a higher risk premium to compensate for a wider range of outcomes, then a great deal of attention ought to be focused on valuation and financial leverage. The figures in the table below suggest that the portfolio remains attractive as to those metrics, not only from a historical perspective, but also relative to the market for small company equities. Layering in the quality considerations of the businesses underlying the holdings and we have many reasons to be optimistic about the future of the Fund.

**“Volatility fails as a risk measure, until it is coupled with a consequence. In other words, the risk in a portfolio is that it fails to meet the liabilities or needs of its owner at some point when an essential outlay is needed.”**

### TASCX VALUATION v. S&P 600

	TASCX Sep 2011	TASCX 5 Yr Avg.	S&P 600 Sep 2011
Price : Book	0.9 x	1.2 x	1.5 x
Price : Sales	0.5 x	0.8 x	0.8 x
Debt : Equity	0.3 x	0.4 x	0.6 x

Note: Figures use portfolio weighted average.

At October 31, 16.6% of the Fund’s assets were in cash and U.S. Treasury Bills, painful in the short-term with yields next to zero. But the cash, a by-product of our investment process and several takeovers of portfolio companies, offers the Fund a small cushion against short-term downturns in the market, is one of the few truly

<sup>3</sup> Interview with Miguel Barbosa, SeekingAlpha.com, March 2010.

**Third Avenue Small-Cap Value Fund (continued)**  
**(Unaudited)**

“non-correlated” assets and offers a huge element of optionality for future investments. Comforting in a world where “wildness lies in wait.”

I look forward to writing you again in the New Year when we publish our First Quarter Report, dated January 31, 2012. May you and your families enjoy a healthy and prosperous New Year. Thank you for your continued support.

Sincerely,

A handwritten signature in black ink that reads "Curtis R. Jensen". The signature is written in a cursive style with a large initial "C".

Curtis R. Jensen  
Co-Chief Investment Officer and Portfolio Manager  
Third Avenue Small-Cap Value Fund

## Third Avenue Real Estate Value Fund (Unaudited)



**MICHAEL H. WINER**  
Co-Portfolio Manager of Third  
Avenue Real Estate Value Fund



**JASON WOLF**  
Co-Portfolio Manager of Third  
Avenue Real Estate Value Fund

Dear Fellow Shareholders:

We are pleased to provide you with Third Avenue Real Estate Value Fund's shareholder letter for the fiscal year ended October 31, 2011. This report marks the Fund's thirteenth full year of operation since its inception on September 17, 1998.

At October 31, 2011, the audited net asset value attributable to the 73,606,430 shares outstanding of Third Avenue Real Estate Value Fund Institutional Class (the "Fund" or "TAREX") was \$21.45 per share. This compares with the Fund's unaudited net asset value of \$23.96 per share at July 31, 2011, and an audited net asset value, adjusted for subsequent distributions to shareholders, of \$22.01 per share at October 31, 2010. At November 28, 2011, the unaudited net asset value was \$19.72 per share.

### QUARTERLY ACTIVITY\*

The following summarizes the Fund's investment activity during the quarter:

<b>Principal Amount, Number of Shares or Contracts</b>	<b>New Positions Acquired</b>
\$11,320,000	K Hovnanian 10.625% Senior Secured Notes due 10/15/16 ("Hovnanian Notes")
2,169,000 shares	City Developments Ltd. Common Stock ("City Developments Common")
1,686,371 shares	General Growth Properties, Inc. Common Stock ("General Growth Common")
8,377,000 shares	Hang Lung Properties Ltd. Common Stock ("Hang Lung Common")
8,339,052 shares	Segro plc Common Stock ("Segro Common")
18,721 contracts	Hang Seng Property Index January 2013 HKD22,947 Calls

\* Portfolio holdings are subject to change without notice. The following is a list of Third Avenue Real Estate Value Fund's 10 largest issuers, and the percentage of the total net assets each represented, as of October 31, 2011: Forest City Enterprises, Inc., 7.44%; Hammerson PLC, 5.00%; Brookfield Asset Management, 4.89%; Cheung Kong Holdings, Ltd., 4.36%; Sun Hung Kai Properties, Ltd., 3.97%; Lowe's Cos., Inc., 3.71%; Vornado Realty Trust, 3.27%; Wheelock & Co., Ltd., 3.23%; Weyerhaeuser Co., 3.04%; and Taylor Wimpey PLC, 2.98%.

**Third Avenue Real Estate Value Fund (continued)  
(Unaudited)**

<b>Notional Amount, Number of Shares, Units or Contracts</b>	<b>New Positions Acquired (continued)</b>	<b>Principal Amount, Number of Shares or Contracts</b>	<b>Positions Reduced</b>
17,800 contracts	Hang Seng Property Index January 2013 HKD24,026 Calls ("Hang Seng Property Index Calls")	857,284 shares	Bellway plc Common Stock ("Bellway Common")
¥6,526,358,334	Japanese Yen / U.S. Dollar Forward Foreign Currency Contracts (JPY/USD Forward)	473,568 shares	Berkeley Group Holdings plc Common Stock ("Berkeley Common")
	<b>Increases in Existing Positions</b>		Henderson Land Development Co. Ltd. Common Stock ("Henderson Common")
473,000 shares	Brookfield Asset Management, Inc., Common Stock ("Brookfield Common")	1,684,000 shares	Mitsubishi Estate Co. Ltd. Common Stock ("Mitsubishi Common")
3,077,000 shares	Cheung Kong Holdings Ltd. Common Stock ("Cheung Kong Common")	1,508,000 shares	Mitsui Fudosan Co. Ltd. Common Stock ("Mitsui Fudosan Common")
431,474 shares	First Industrial Realty Trust, Inc. Common Stock ("First Industrial Common")	220,230 shares	Vornado Realty Trust Common Stock ("Vornado Common")
813,609 shares	Forest City Enterprises, Inc. Class A Common Stock ("Forest City Common")	\$100,000,000	<b>Positions Eliminated</b> Lehman Brothers Holdings Senior Unsecured Notes (3 issues) ("Lehman Notes")
2,057,100 shares	Hammerson plc Common Stock ("Hammerson Common")	25,000 shares	NTT Urban Development Corp. Common Stock ("NTT Common")
820,000 shares	Lowe's Companies, Inc. Common Stock ("Lowe's Common")	66,900 shares	Ryland Group, Inc. Common Stock ("Ryland Common")
3,152,900 shares	Mirvac Group Common Stock ("Mirvac Common")	2,890 contracts expired	Vornado Realty Trust August 2011 \$95 Calls ("Vornado August Calls")
620,000 units	Newhall Holding Co. LLC Class A Units ("Newhall Common")	5,995 contract exercised	Weyerhaeuser Company August 2011 \$20 Puts ("Weyerhaeuser August Puts")
721,000 shares	Sun Hung Kai Properties Ltd. Common Stock ("Sun Hung Kai Common")		
33,991,856 shares	Taylor Wimpey plc Common Stock ("Taylor Wimpey Common")		
4,150,000 shares	Westfield Group Common Stock ("Westfield Common")		
599,500 shares	Weyerhaeuser Company Common Stock ("Weyerhaeuser Common")		

**DISCUSSION OF SIGNIFICANT QUARTERLY ACTIVITY**

During the quarter, the Fund had one of the most active investments periods in recent history, adding several new securities to the portfolio and increasing holdings in many existing securities. Increased market volatility provided Fund Management with unique opportunities to invest the Fund's cash reserves in securities at prices representing substantial discounts to net asset value ("NAV"). New investments included the senior secured notes of a U.S. home builder and the common stocks of a Singapore real estate operating company, a U.S. mall REIT, a Hong Kong

## **Third Avenue Real Estate Value Fund (continued) (Unaudited)**

real estate operating company and a U.K. REIT. In addition, the Fund purchased call options on the Hang Seng Property Index, while reducing its holding in Henderson Common. The Fund also reduced its holdings in two U.K. home builders (based on price appreciation) and three Japanese real estate operating companies (to reallocate into securities with greater projected returns). The Fund sold its holdings in Lehman Notes (realizing a profit), also to reallocate into other securities.

As noted in previous quarterly letters to shareholders, until recently, the Fund has been cautiously holding cash reserves while waiting for the right opportunity to invest. Towards the end of last quarter (ending July 31, 2011), the Fund's investment activity started to pick up, with new positions established in Lowe's and several Australian REITs. During the first few weeks of August, the Fund acquired several new securities that Fund Management had been tracking for a long time – several years in some cases. In addition, the Fund was able to increase its position in twelve existing holdings. The Fund's cash balance was approximately 16% at July 31 and got down to about 3% by the end of August. During September and October, the Fund reduced and/or eliminated a few holdings based on price appreciation and the need to rebuild cash reserves for future opportunistic purchases. The Fund's cash reserve at October 31 was 7.5%, which Fund Management considers to be prudent.

### **Hovnanian Notes**

The Fund initiated a position in the Senior Secured Notes of Hovnanian Enterprises. Hovnanian is the seventh largest homebuilder in the United States with communities throughout the Northeast and Mid-Atlantic, as well as Texas and California. While the company's homebuilding business has gradually improved over recent quarters, Hovnanian remains saddled with too much debt stemming from aggressive expansion efforts prior to the downturn in the U.S. residential markets. Outside of a broad based recovery in the U.S. homebuilding business in the next 12-18 months, it seems likely that Hovnanian will have to take

more drastic steps to restructure its balance sheet as the company is currently burning through about \$100 million of cash annually. The most immediate option for the company might be to enter into a pre-packaged bankruptcy plan, or "pre-pack", whereby it would convert its Unsecured Notes to Equity, thus leaving the Senior Secured Notes outstanding. In this scenario, the Fund's investment in the Senior Secured Notes would benefit from being perceived as an "improved credit" with Hovnanian having substantially reduced its debt load and the associated interest expense. Hovnanian has \$797 million of Senior Secured Notes outstanding, which is senior to total outstanding unsecured debt of \$832 million. If a "pre-pack" proves too difficult to negotiate out-of-court, the company may be forced to seek bankruptcy protection as it further depletes its cash resources. In this event, the Senior Secured Notes would be the fulcrum security in the reorganization with a first priority lien on the vast majority of Hovnanian's cash and homebuilding operations. In a reorganization, the Senior Secured Notes are likely to be (a) refinanced, (b) repaid with proceeds from selling the platform, or (c) converted to equity in a well-capitalized builder that will be positioned to participate in a recovery in the U.S. residential markets. While we wait for either a restructuring or a less likely bounce back in homebuilding activity, the Fund is receiving approximately a 12% cash return on its investment in Hovnanian's Senior Secured Notes.

### **General Growth Common**

During the market sell-off in August, the Fund re-established a position in General Growth Common. General Growth Properties, or GGP, owns the second most valuable portfolio of regional malls in the United States, with 180 properties nationwide. GGP is not new to the Fund. In fact, in 2008, the Fund owned GGP bank debt prior to the company filing for bankruptcy protection in 2009. We anticipated that GGP bank debt would be refinanced, paid back at par plus accrued interest, or converted to equity in a better capitalized company. The Fund ended up selling its investment in the Bank Debt in excess of par value and then recycling the capital to

## Third Avenue Real Estate Value Fund (continued) (Unaudited)

General Growth Common prior to the company emerging from bankruptcy. It was our view, at the time, that General Growth Common would ultimately trade in-line with other U.S. REITs after exiting bankruptcy. This indeed ended up being the case and the Fund sold its position. However, after the recent market sell-off, General Growth Common was trading at a sizeable discount to net asset value allowing the Fund to re-establish its position. The thesis this time is straightforward: the Fund is buying into an irreplaceable mall portfolio at a discount to net asset value and investing alongside a control group that is actively taking steps to enhance value. Some of these actions include: (i) actively managing its portfolio by re-leasing space at rents in excess of expiring leases and filling stores that were vacated while GGP was in bankruptcy, (ii) further reducing its interest costs by refinancing mortgage debt at historically low rates and extending out maturities, (iii) repurchasing shares at a discount to underlying value, and (iv) spinning-off the lower quality properties with substantial cap-ex needs into a separate entity. As General Growth executes on these initiatives over the next 18-24 months, it is our view that General Growth Common will trade in-line with net asset value (which we expect to grow as management implements the above noted initiatives). Given the prospects for GGP to generate industry-leading cash flow growth, its low-cost, long-term debt and focus on Class A malls where rental income should continue to compound at above-average rates, it is not inconceivable that General Growth Common will be a “must own” stock in the REIT sector and trade at a premium valuation.

### Segro Common

Segro is a U.K.-based real estate investment trust that owns more than 60 million square feet of industrial properties, approximately two-thirds of which is located in the U.K., where it has a dominant position in London’s key industrial sub-markets of Heathrow, Royal Park, and Slough Estate. The remaining one-third is located in continental Europe, primarily in Germany, France, and Poland. As the market swooned in August due to concerns about slowing global trade and its impact on industrial

properties, most notably in Europe, the Fund was able to acquire Segro Common at a substantial discount to net asset value and an implied cap rate (*i.e.*, initial yield) north of 8% on in-place income. The stock price seems even more attractive when considering the company’s in-place cash flow is depressed, with more than 13% of the portfolio currently vacant. A substantial portion of that vacancy is attributable to a portfolio that Segro opportunistically acquired, in 2009, which primarily consists of class-A industrial properties that were under managed by the previous owner. Segro’s management team expects to be able to lease up the vacant space. As the cash flows increase from this leasing activity, and macro concerns subside, Segro Common should trade back in-line with net asset value. If not, Segro seems like a very attractive acquisition candidate with its highly coveted, market dominant position in London.

### Hang Lung Common

The Fund took advantage of the market sell-off in Hong Kong property stocks by re-establishing a position in Hang Lung Common at a discount to our estimate of net asset value. The Fund had previously held Hang Lung Common (since 2005) and sold it last year after it appreciated to full value. Hang Lung Properties owns a portfolio of income-producing properties in Hong Kong, as well as mainland China where it is the premier developer of high-end shopping malls in the country, with four very well-located malls in operation and a pipeline of five more developments that will deliver an additional 21.6 million square feet located in prime locations within each city center. The commercial property portfolio generates recurring income of over HK\$4 billion per year. The company has an extremely strong financial position, with HK\$15 billion of net cash (cash exceeds total outstanding debt), as of June 30, 2011. The financial position is further supported by a portfolio of residential properties in Hong Kong that are held to be opportunistically sold. Hang Lung has an excellent track record of buying land cheaply at the bottom of cycles, avoiding purchasing land during ebullient times and taking a long-term approach to

## Third Avenue Real Estate Value Fund (continued) (Unaudited)

creating value. This has resulted in Hang Lung controlling some of the best-located sites in each of its respective cities.

### **City Developments Common**

Recent government regulations aimed at slowing the residential housing market in Singapore have resulted in an uncertain near-term outlook for residential developers and created an opportunity for the Fund to acquire City Developments Common at a substantial discount to net asset value. City Developments is a Singapore-listed real estate operating company. Its key assets include (i) a 7 million square foot portfolio of primarily office and retail properties located within Singapore's central business district, (ii) one of the largest land banks in Singapore, which is primarily residential and can accommodate a further 7 million square feet of future development, and (iii) a 54% ownership interest in Millenium & Copthorne Hotels, a separately-listed hotel chain with assets in gateway cities around the world. City Developments' strong balance sheet (net debt accounts for less than 20% of assets and over S\$1.7 billion in cash) should enable the company to wait out the near-term residential slowdown, rather than cutting prices on residential units (as less well-financed developers may be forced to do). The company was founded and is still controlled by the Kwek family, which has an impressive long-term track record of creating shareholder value and is well-aligned with minority shareholders through its 49% ownership stake.

### **Hang Seng Property Index Calls**

The Fund purchased call options on the Hang Seng Property Index ("HSP Index") following a 42% decline from November 8, 2010 and a 33% decline from August 1, 2011. The Fund paid \$9.2 million in total premiums for a 15-month term (expiring in January 2013) with strike prices on the HSP Index of HK\$22,946 and HK\$24,025, each in US\$50 million notional amounts. The strike prices represented 10% premiums to the market price on the HSP Index on the date of each purchase. At

October 31, 2011, the HSP Index was priced at HK\$25,234, with both options being "in-the-money" and having a combined value of \$16.7 million. The HSP Index is a capitalization-weighted index of seven Hong Kong-listed property companies, included four held in the Fund (Cheung Kong Holdings, Hang Lung Properties, Henderson Land and Sun Hung Kai Properties). Fund Management has a bullish view on Hong Kong in general and, in particular, the property sector, especially after the dramatic decline in stock prices despite continuing strong fundamentals. Purchasing 15-month call options on the HSP Index appears to have an asymmetric return profile – substantial upside potential with limited downside risk. At risk is the \$9.2 million premium (approximately 0.56% of Fund net assets), which would be worth zero if the respective strike prices are below the HSP Index price in January 2013. If the HSP Index recovers to its August 1, 2011 price (HD\$29,162) on the expiration date, the options will have intrinsic value of \$24.2 million (2.6 times cost). If the HSP Index recovers to its November 8, 2010 price (HK\$33,635) on the expiration date, the options will have intrinsic value of \$43.3 million (4.7 times cost). The option values would likely be higher if the HSP Index recovers prior to the expiration date, since valuation determinants would include time value and volatility in addition to intrinsic value.

### **FOREST CITY ENTERPRISES – THINGS CHANGE / LESSONS LEARNED**

Since the Fund's inception in 1998, Forest City has been noted in our quarterly letters to shareholders numerous times for the simple reason that Forest City Common has been a holding in the Fund since inception and has, at most times, been the Fund's largest holding. For the ten-year period ending September 30, 2008, Forest City Common generated an annualized return of 16.7%, compared to a 12.4% annualized return for the U.S. REIT index<sup>1</sup>. The last three years have been a very different story. For the three-year period ended September 30, 2011, Forest City Common generated an annualized return of -29.4%,

<sup>1</sup> The MSCI US REIT Index is a total-return index comprising the most actively traded U.S. real estate investment trusts.

## Third Avenue Real Estate Value Fund (continued) (Unaudited)

compared to a -1.7% return for the U.S. REIT index. After ten years of providing shareholders with stellar returns, most of those returns have been given back. The annualized return on Forest City Common from September 30, 1998 to October 31, 2011 was 5.9%, compared to the 10.0% return for the U.S. REIT index (and the 10.4% return for the Third Avenue Real Estate Value Fund).

So, what happened? First of all, Fund Management made a mistake by not reducing its position in Forest City Common in 2006 and 2007 when, largely the result of appreciation, it grew to over 13% of the Fund's net assets<sup>2</sup>. The stock traded at all-time highs and it became more difficult to justify the stock price without stretching our valuation estimates. It was also during an ebullient period for most real estate stocks, globally. The Fund had net assets of approximately \$3 billion and adequate cash reserves, but there were limited opportunities to invest in discounted real estate stocks around the globe (including our Hong Kong investments, which had increased substantially during this period). In hindsight, the prudent move would have been to sell many of the Fund's securities and hoard cash in anticipation of the global financial/credit crisis. Unfortunately, Fund Management is just not smart enough to have been able to anticipate a global crisis where companies that once looked financially sound would lose access to credit and be forced to raise highly dilutive equity in order to avoid the risk of credit defaults.

To further highlight Fund Management's lack of prescience, the following is an excerpt from the July 2007 letter to Fund shareholders:

*"It is important to reiterate that the vast majority of the Fund's holdings are in companies that are extremely well-financed and have the ability to control the timing of when they access capital markets for debt or equity. Management of these companies tends to be conservative.*

*They take advantage of inexpensive capital when it is available, as opposed to waiting until there is a dire need for capital. . . . Chaotic credit markets may also have an upside for many of the real estate companies in the portfolio. For companies that have locked-in, long-term, low rate, non-recourse mortgage borrowings secured by specific properties (e.g., Forest City Enterprises), the current credit market turmoil enhances underlying values for these properties."*

Things change. Forest City and most otherwise financially sound companies in the U.S., U.K., Continental Europe and Australia lost their previously reliable ability to control the timing of when they access capital markets. For a period of time in 2008-2009, there were simply no capital markets to access. Bargain hunters then began providing very expensive (and highly dilutive) equity, as companies in dire need for capital to shore up their balance sheets came to market with stock and rights offerings at discounted prices. Not long thereafter, the credit markets again opened for those companies with fresh equity and with solid commercial property portfolios that came out of the financial crisis relatively unscathed.

Forest City, as one the country's premier developers of urban regeneration projects, entered the financial crisis with a significant pipeline of projects under construction and even more under development (not yet under construction). At October 31, 2008, Forest City owned a portfolio of operating properties valued (at the time) at approximately \$9 billion. In addition, it had twelve projects under construction and development with costs-in-place of \$2.2 billion. Clearly, Forest City ill-timed its development schedule and it ultimately became evident that pro forma completion valuations were going to be substantially lower than anticipated and, in some cases, lower than total project costs. Forest City's development pipeline coupled with the company's higher absolute debt

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<sup>2</sup> At October 31, 2011, Forest City Common was the Fund's largest holding, representing 7.4% of Fund net assets.

## Third Avenue Real Estate Value Fund (continued) (Unaudited)

levels<sup>3</sup> compared to its REIT peers<sup>4</sup> created uncertainties about the company's financial strength. The selloff in Forest City Common from mid-2007 through early 2009 was draconian (from \$70.00 to \$3.41 per share), as development companies became the pariah of the industry.

In May 2009, the company (in a highly dilutive offering) raised equity at \$6.60 per share (the Fund purchased shares in the offering to avoid being diluted). The company was also successful in extending its debt maturities on attractive terms by exchanging approximately \$370 million of existing debt for common stock and longer-dated convertible notes. Additionally, the company issued \$350 million of new convertible notes due in 2018 with a coupon of less than 5%. At July 31, 2011, Forest City had more than \$450 million of cash and less than \$50 million of corporate debt maturing through 2015.

As Forest City completed its balance sheet repairs through the equity and convertible debt offerings noted above, the general markets were recovering from the financial crisis and market participants once again noticed that Forest City Common was trading at substantial discounts to its U.S. REIT peers. From June 2009 through June 2011, Forest City Common increased from \$6.60 to \$18.67 per share (a 183% return, compared to 108% return for the U.S. REIT index). During the second quarter of 2011, the Fund began reducing its position in Forest City Common as the price appreciated to within 10-15% of our estimate of NAV. However, the market turned down again before the Fund could sell more shares at the right price.

As the global financial markets began teetering again in July due to European sovereign debt issues, the downgrade of U.S. sovereign debt, fear of a hard landing in China, etc., market participants pulled out their 2008 playbook

and dumped their "risky" holdings (very few equity markets were spared). August and September were ugly months for Forest City Common (down 41%), while the U.S. REIT index was only down 16%. Fund Management attributes this recent divergence in performance to factors that have little to do with fundamental valuation. Those factors include: (1) Forest City is not a REIT and does not pay a dividend on its common stock; (2) Forest City is not a "pure-play" commercial property landlord; it has several business units (*e.g.*, military housing management, residential land development and urban commercial developments) that create complexity when valuing the stock; (3) Forest City has two share classes with differentiated voting rights, effectively giving insiders control over board elections and major corporate decisions (which thwarts any threat of an unfriendly change of control); (4) the return expectations of the company's development pipeline, most notably its Ridge Hill project in Yonkers, New York, remain uncertain. Simply put, the prospect of another potential global economic crisis has driven investors to seek safety in securities that are more mainstream, less complex and provide "theoretical" downside protection by paying regular cash dividends. Investors with allocations dedicated to the U.S. real estate sector seem to be making the easy choice: own large-cap U.S. REITs (irrespective of fundamentals such as price-to-NAV or price-to-cash flow). Despite Forest City Common trading at a substantial discount to its REIT peers, it is not a stock dedicated real estate investors "need" to own, especially during highly uncertain economic periods.

In October, Fund Management met with Forest City's senior management to initiate discussions regarding strategic initiatives the company could employ to enhance shareholder value and encourage other investors' interest in

<sup>3</sup> Forest City's traditional method of financing is through non-recourse mortgage loans on individual properties as opposed to corporate-issued debt with corporate and subsidiary guarantees. While Fund Management believes this type of financing is prudent because liabilities are primarily isolated to single projects, Forest City has historically sought to maximize leverage on individual projects while limiting corporate borrowings. However, even though mortgages are isolated and not backed by corporate guarantees, on an absolute basis, the company's balance sheet is more highly leveraged than most US REITs of similar size.

<sup>4</sup> Forest City is not a REIT, but since it owns and operates a significant portfolio of commercial (income producing) properties, its peer group includes U.S. REITs.

### Third Avenue Real Estate Value Fund (continued) (Unaudited)

owning a stake in the company. Specifically, Fund Management suggested that Forest City (1) modernize its corporate governance by (a) planning for the elimination of the dual class share structure and (b) reducing the number of directors; (2) divest its non-core businesses to reduce complexity and use proceeds to reduce corporate-level debt and conduct a tender offer for common shares at a premium to market price, but discount to NAV; and (3) enhance financial reporting by (a) early adoption of International Financial Reporting Standards (IFRS) which would include disclosure of appraised values for its property portfolio and (b) changing its year end to December 31, instead of January 31, so that financial reporting periods coincide with the rest of the industry. Following the meeting, Fund Management filed a Schedule 13D with the U.S. Securities and Exchange Commission stating the fact that it had initiated discussions with the company and that it may also contact and form strategic alliances with other significant shareholders, or others, for a common purpose should it determine to do so, and/or recommend courses of action to the company's management, board, shareholders and others.

Forest City management reacted positively to the initial and subsequent discussions, giving Fund Management hope that many, if not all, of the recommendations will be considered. Market participants also seemed to react favorably to the 13D filing – Forest City Common increased from \$9.84 on October 4 (the day before the filing) to \$13.68 on October 31 (up 39%).

Forest City Common is the Fund's largest holding because Fund Management believes it offers the highest risk-adjusted return profile over the next few years and, as its development projects come on line, there are excellent

prospects for continued NAV growth. If the company implements some or all of our recommendations and communicates its intentions to stakeholders, we believe the market will recognize the attractiveness of Forest City Common, and the persistent trading discount (relative to Forest City's peers) should permanently dissipate. Fund Management has had a long-standing relationship with the company and we believe Forest City's management, board and insiders are, in fact, motivated to act appropriately so that the market price of Forest City Common more closely reflects underlying intrinsic value. If Forest City Common were to trade in-line with our conservative estimate of "as-is" NAV, this would represent appreciation of more than 40% (based on the closing price on October 31). If it were to trade in-line with the valuations for its U.S. REIT peers, this would represent appreciation of more than 80%.

**“Our proactive portfolio adjustments represent a logical evolution in our process and highlight our awareness of changes in the macro environment and how they affect our portfolio holdings.”**

As highlighted by the above comments on Forest City, things change. Hopefully, it is also apparent from the Fund's recent activity that Fund Management has learned from these unexpected changes. We have revised our thinking on concentration limits for individual securities in the portfolio (*e.g.*, the largest position at quarter-end was 7.4% of the Fund's net assets and the Fund's top-ten holdings represented 41.2% of net assets; five years ago, the largest position was 12.2% and the top-ten holdings represented 57% of net assets). We have also been more proactive in reducing and/or eliminating holdings based on price appreciation or to reallocate into securities with more attractive valuations. After eliminating holdings from the portfolio, they usually remain on our back-up portfolio list and are candidates for future purchases if the fundamentals remain promising and they can be reacquired at substantial discounts to NAV (*e.g.*, the sale of

**Third Avenue Real Estate Value Fund (continued)**  
**(Unaudited)**

Hang Lung Common in 2010 and repurchase in 2011; the sale of General Growth Common earlier in 2011 and the recent repurchase; and the reductions in two U.K. home builders and several Japanese holdings). These proactive portfolio adjustments do not represent a change in Fund Management's fundamental approach to analyzing businesses and the prices of their securities, nor does it mean that we are now engaged in "market timing". We time our entry and exit from securities positions based upon fundamental valuations, not on expectations of price movements in the market. Our proactive portfolio adjustments represent a logical evolution in our process and highlight our awareness of changes in the macro environment and how they affect our portfolio holdings.

We look forward to writing you again next quarter. Best wishes for a healthy and prosperous New Year.

Sincerely,

Handwritten signatures of Michael H. Winer and Jason Wolf in black ink.

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

Jason Wolf  
Co-Portfolio Manager  
Third Avenue Real Estate  
Value Fund

## Third Avenue International Value Fund (Unaudited)



**AMIT B. WADHWANEY**  
PORTFOLIO MANAGER OF THIRD AVENUE  
INTERNATIONAL VALUE FUND

Dear Fellow Shareholders:

At October 31, 2011, the audited net asset value attributable to the 83,369,276 shares outstanding of the Third Avenue International Value Fund Institutional Class (the "Fund") was \$15.33 per share, compared with the Fund's unaudited net asset value at July 31, 2011 of \$17.33 per share, and an audited net asset value of \$16.04 per share at October 31, 2010, adjusted for the distribution of \$0.29 per share. At November 28, 2011, the unaudited net asset value was \$14.00 per share.

### QUARTERLY ACTIVITY\*

In the most recent quarter, the Fund established four new positions, added to positions in the common shares of eleven companies, reduced nine existing positions and eliminated two positions.

#### Number of Shares

237,597 shares

1,050,902 shares

#### New Positions Acquired

Daimler AG Common Stock  
("Daimler Common")

Petroleum Geo-Services ASA Common  
Stock ("PGS Common")

#### Number of Shares

1,099,300 shares

3,178,485 shares

72,605 shares

12,798 shares

241,000 shares

445,000 shares

373,320 shares

321,900 shares

31,100 shares

43,054 shares

334,241 shares

8,346,809 shares

21,644 shares

#### New Positions Acquired (continued)

Precision Drilling Corporation Common  
Stock ("Precision Drilling Common")

Segro PLC Common Stock  
("Segro Common")

#### Increases in Existing Positions

Atrium European Real Estate Ltd.  
Common Stock ("Atrium Common")

GlaxoSmithKline PLC Common Stock  
("GSK Common")

Guoco Group Limited Common Stock  
("Guoco Common")

Hutchison Whampoa Limited Common  
Stock ("Hutchison Common")

Leucadia National Corporation  
Common Stock ("Leucadia Common")

LG Corp. Common Stock  
("LG Corp. Common")

Muenchener Rueckversicherungs-  
Gesellschaft AG Common Stock  
("Munich Re Common")

Pargesa Holding S.A. Common Stock  
("Pargesa Common")

Resolution Limited Common Stock  
("Resolution Common")

Taylor Wimpey plc Common Stock  
("Taylor Wimpey Common")

White Mountains Insurance Group Ltd.  
Common Stock ("White Mountains  
Common")

\* Portfolio holdings are subject to change without notice. The following is a list of Third Avenue International Value Fund's 10 largest issuers, and the percentage of the total net assets each represented, as of October 31, 2011: WBL Corp., Ltd., 7.16%; Netia S.A., 5.65%; Viterra, Inc., 5.39%; Resolution, Ltd., 4.41%; Leucadia National Corp., 3.42%; Weyerhaeuser Co., 3.15%; Allianz SE, 3.01%; Sanofi, 2.99%; Mitsui Fudosan Co., Ltd., 2.82%; and Taylor Wimpey PLC, 2.81%.

### Third Avenue International Value Fund (continued) (Unaudited)

<b>Number of Shares or Warrants</b>	<b>Decreases in Existing Positions</b>
134,410 shares	Andritz AG Common Stock ("Andritz Common")
150,000 shares	Asatsu-DK Inc. Common Stock ("ADK Common")
657,600 shares	Dundee Precious Metals, Inc. Common Stock ("Dundee Common")
22,800 warrants	Dundee Precious Metals Inc. November 2015 Warrants ("Dundee 2015 Warrants")
591,400 shares	Kinross Gold Corp. Common Stock ("Kinross Common")
299,421 shares	L.E. Lundbergforetagen AB Class B Common Stock ("Lundbergs Common")
162,850 shares	Newmont Mining Corporation Common Stock ("Newmont Common")
259,919 shares	Sampo Oyj Common Stock ("Sampo Common")
1,013,100 shares	Tokio Marine Holdings, Inc. Common Stock ("Tokio Marine Common")
	<b>Positions Eliminated</b>
846,861 shares	Cenovus Energy, Inc. Common Stock ("Cenovus Common")
70,685,750 shares	United Microelectronics Corporation Common Stock ("UMC Common")

#### REVIEW OF QUARTERLY ACTIVITY

During the quarter, fears of a slowdown emanating from China, combined with continuous European sovereign news flow that has failed to inspire confidence, caused a severe sell-off of European automobile manufacturers. It was felt acutely by the dominant luxury auto manufacturers, which have always derived a large portion of their revenue from Western European markets but have increasingly been reliant on Asia, specifically China, for growth (albeit to varying extents).

Succumbing to the pressure was the stock price of one of the Fund's newest investments, Daimler AG ("Daimler"), the maker of Mercedes-Benz cars and a large global manufacturer of trucks, buses and vans. In addition, the company also operates a large financial services business to facilitate the acquisition of its vehicles. In the difficult 2008-2009 period, the company raised roughly €2 billion of equity, and has throughout the ensuing economic recovery been a prodigious generator of unencumbered cash. Today, the company has an estimated €10 billion of surplus cash, not including several billion euros of non-core equity holdings which may be disposed of in the foreseeable future.

While its peers have long been lauded for their China-driven growth, Daimler has been playing catch up. Because of the more recent development of its Chinese presence, Daimler derives a significantly smaller percentage of its revenue from China than its peers and, thus, has less direct sensitivity to a slowdown in what has been a feverishly fast-growing passenger vehicle market. There is, indeed, recent evidence to point to a meaningful cooling off of this rapidly growing market. Additionally, because of its historically smaller presence in China, Daimler also arguably has more opportunity than its peers to increase its vehicle volumes there, which has been exactly the case over recent periods.

The last few years of Daimler's operating performance include both the worst crisis in many decades as well as the more recent period, which has been record-setting. With the premise that neither extreme is likely to be a normal long-term operating environment for the company, the current price seems to reflect an overly draconian assessment of a well-capitalized business, which boasts one of the world's iconic brands.

Another new position added during the quarter, was the common stock of Petroleum Geo-Services ASA ("PGS"), which is the third largest seismic company globally, providing marine seismic imaging primarily to oil and gas companies. The seismic industry is one with fairly violent

### Third Avenue International Value Fund (continued) (Unaudited)

cycles – a characteristic that, from time to time, has provided us with opportunities to invest in seismic companies at attractive prices.

PGS proved not to be immune to the ups and downs of its industry, and declared bankruptcy in 2003 due to a confluence of its rapid expansion, a prolonged recession in the seismic market, and aggressive accounting. Post-bankruptcy, PGS streamlined its businesses, refinanced its debt and updated its vessel fleet. While PGS became the owner of the most modern fleet, the slowdown in 2008 combined with PGS' asset-heavy balance sheet resulted in management once again facing an uncomfortable position.

This time around, PGS preemptively took steps to strengthen its balance sheet. In December 2009, the company made the move to focus solely on marine seismic with the sale of its onshore seismic business, a segment that is significantly less profitable than marine and far more competitive. In addition to that sale, a combination of old vessel sales, equity raising and debt refinancing has left PGS today with a significantly stronger balance sheet and one of the most modern seismic fleets amongst the three top seismic players. Volatility in oil prices, fear of prolonged reductions in E&P activity (*e.g.*, in the Gulf of Mexico and the Middle East given the unrest there) and a short-term over-supply of seismic vessels have clouded the short-to-medium term outlook for PGS, allowing us to invest in a quality company at, what we believe to be, very reasonable valuations.

The Fund also initiated a position in the common shares of Calgary-based Precision Drilling Corporation, a leading, integrated North American oilfield driller and provider of energy services to the oil and gas exploration and production industry. A major Canadian energy services provider, in 2008, Precision Drilling acquired Houston-based Grey Wolf Inc. to expand its operations in the U.S. The sharp economic downturn and reduction in drilling activity that followed this acquisition, however, forced the company to take a number of actions

to strengthen its balance sheet. In early 2009, Precision Drilling completed an equity issue and a rights offering, in addition to a refinancing of some of the debt resulting from the acquisition. Additionally, the company, which was formerly structured as an income trust, discontinued its dividend, further reducing cash usage.

Having navigated through one of the more difficult periods in the company's history, Precision Drilling has emerged with a significantly strengthened financial position; it currently holds about C\$500 million in cash in addition to C\$550 million of availability under its revolving credit facility. Net debt amounts to only about 1.25x the operating earnings that the business has generated over the trailing twelve months, and the company faces no significant debt maturities until 2019.

The much-improved capital structure complements what has long been a formidable position in the North American energy services market. Precision Drilling is currently one of the most active drillers in North America, with nearly 240 active rigs, in addition to about 200 well service rigs. The company is currently the continent's leading horizontal driller – a distinction that may take on increased importance with the growth of unconventional drilling – and holds strong positions in all of the continent's key gas shale and oil plays. Shares were purchased at what we believe is a modest multiple of operating earnings.

Another new investment added to the Fund's portfolio during the quarter, Segro PLC, is a U.K.-based real estate investment trust which owns in excess of 60 million square feet of industrial properties primarily in the U.K. and, secondarily, in Continental Europe. The U.K. properties are largely located in the highly desirable, space-constrained, and hard to enter southeastern portion of the country. The Continental European properties are mostly located in Germany, France and Poland. Valued on an *as-is* basis, the common stock was purchased at a discount in excess of 30% to our estimate of its net asset value ("NAV"), as its currently depressed

## Third Avenue International Value Fund (continued) (Unaudited)

pricing has mirrored broader economic concerns and a somewhat narrower concern that a portion (about 13%) of the portfolio is currently vacant. Much of this vacancy stems from the 2009 acquisition of Brixton PLC, whose previous management team appeared to be less inclined to maximize cash flow than Segro's current management team has been. Should management be successful in improving the occupancy rates and the cash flow of the company, and/or the economic backdrop is perceived as becoming less hostile, this wide discount to the NAV is unlikely to be sustained. Alternatively, should the gap between price and the NAV persist, given the scarcity value that one could attach to Segro's assets in a more normal environment, this company is apt to present an attractive acquisition target to either a strategic or a financial buyer.

### **INSURANCE COMPANY INVESTING DURING FINANCIAL CRISES**

As if the scrutiny to which financial services companies worldwide had been subjected of late was not intense enough, two events that took place during the most recent quarter have managed to place financial stocks ever more firmly under the microscopes of skeptical investors worldwide. The first event – though probably the less important one in the short term – was the much ballyhooed downgrade of U.S. federal debt by Standard & Poor's in August. Secondly, the worsening of the European sovereign debt crisis and the ongoing, though to date, futile attempts of European governments to defuse it have exacerbated investor fatigue. Though nothing particularly new – the prospect of a default by one or more European countries has worried investors for more than two years now – these concerns intensified over the summer and turned into a full-blown panic by the end of August of this year. Market commentators launched into elaborate speculations about the impact of a sovereign default on the financial system. As wild rumors swept the markets, common stocks of financial institutions sold off indiscriminately.

We are often asked by fellow investors in the Fund about our exposure to financial institutions, particularly those in Europe. The first relevant point to make is that we have avoided investing directly in European banking stocks throughout the ongoing sovereign turmoil (and, truth be told, throughout the Fund's history). However, our portfolio has, in fact, included holdings in European insurers (since 2008). Some of these holdings – most notably Allianz SE and Munich Re – have inspired questions and concern from market participants, perhaps understandably so, given the significant role that each of these institutions plays in Continental European and global financial services markets. However, lumping together insurance companies, particularly well-capitalized ones like those that can be found in the Fund, with commercial and investment banks may very well prove misguided. Indeed, we believe – based on our experience in observing financial crises that have taken place globally over many years – that not only are insurance companies much more resilient than banks, but, in fact, they can become beneficiaries of disruptions in financial markets, with the related benefits ultimately accruing to shareholders such as the Fund.

In our shareholder letter accompanying the Second Quarter 2009 report (for the period ending April 30, 2009), we discussed in some detail the characteristics of insurance company investments that we find attractive, focusing particularly on safety and the preservation of capital. In summary, we seek out common stocks of insurance companies that possess the following attractions: they reliably generate cash from underwriting, use conservative reserving and accounting policies, do not take undue risks in their investment portfolios, have excess capital, and avoid borrowing money at the holding company level. Insurance companies that pass our selection criteria – which seem simple enough, but at times have proven to be a set of hurdles surpassed by few – tend to be far more resilient than their competitors. Moreover, our experience has shown that insurance companies fare better in financial

## Third Avenue International Value Fund (continued) (Unaudited)

panics than do banks, for the reasons outlined below. It is instructive that much ink has been spilled over the prospects and dangers of a European banking crisis, but the term “European insurance crisis” remains unknown to Internet search engines.

Insurance companies have a number of characteristics that support their resilience in a financial crisis:

### **1. INSURANCE COMPANIES DO NOT NEED ACCESS TO LIQUIDITY**

The most important difference between banks and insurance companies can be found in the structure of their balance sheets. In general, banks borrow short term (via deposits or wholesale funding) and lend long term. The upshot of this fact is that many banks need recurring access to short-term funding to keep their business model chugging along. Their dependence on the health of wholesale financial markets may seem inconsequential while the good times roll (say, in 2006 or 2007). But, alas, all good things must come to an end, or to a temporary respite at the very least. And when they do, banks’ reliance on wholesale funding markets becomes a far more serious limitation. Indeed, any disruption of those markets, or concerns about the solvency of the particular bank in question, could quickly lead to liquidity issues. These liquidity issues, in turn, can ultimately result in a fate that very well might have been nearly unimaginable during better times: a permanent impairment of capital, perhaps via forced capital raising (perhaps with the bank’s hand forced by government, for example), or even the outright liquidation of the bank.

Such an outcome should, indeed, be frightening for investors. But, as compared to banks, we believe the business model employed by insurance companies, in general, is much more resilient, and it does not share this dependence on short-term liquidity in order to operate. Insurance companies tend to do a better job, consciously, of matching the duration of their assets and liabilities (if anything, their assets tend to be shorter duration than their liabilities). As long as they avoid excessive debt at the

holding company level and remain well capitalized at all levels of the corporate structure, they generally do not need to access wholesale financial markets to fund their continuing operations. In short, the business models of well-capitalized insurance companies, such as those held in the Fund, are generally not dependent upon wholesale financial markets, whose notoriously fickle nature at times (such as during credit crunches) could threaten to bring capital market-dependent banks to their knees.

### **2. ASSET AND LIABILITY MATCHING BY COUNTRY AS WELL AS BY DURATION**

Insurance companies have a well-deserved reputation for being exceedingly complicated. But as frustrating as it may be to encounter unnecessary complexity in life, at times it may be useful to heed the advice of Albert Einstein, who famously warned, (note: we are paraphrasing here) “Everything should be made as simple as possible, but no simpler.” In the case of insurance companies, we believe that, ironically enough, their complexity can provide not only protection and robustness, but, ultimately, opportunity for investors. A large insurance group, such as an Allianz or a Munich Re, which operates across multiple geographies and/or business lines, is typically organized within a publicly-listed entity. While the common stock of this listed entity is what investors actually trade on stock exchanges, functionally the listed entity acts as a holding structure for its collection of local, separate operating insurance entities. That each of these individual operating subsidiaries has its own balance sheet is a fact which is obscured by accounting consolidation for financial reporting purposes, which basically aggregates all of the subsidiaries’ assets and liabilities in the financial statements reported by the listed holding company.

While this fact may seem to be simply an accounting technicality, in actuality it has interesting implications for the robustness of the listed insurance holding company. Each of the aforementioned, individual local entities is compelled to satisfy its own local regulators that it has sufficient capital for its operations, and can be, in effect,

## Third Avenue International Value Fund (continued) (Unaudited)

ring-fenced from the rest of the group. This could prove to be a useful characteristic in times of stress. Suppose, for example, that there is ultimately a catastrophic failure of the “Euro Project,” perhaps resulting in the ejection of a country from the Eurozone. In this draconian type of scenario, it is worth noting that a local insurance subsidiary operating in the country which has been kicked out will likely have matched its assets in that country with its liabilities. That would not change the fact that, if a country were to be ejected from the Eurozone, it is likely that the assets of an insurance company operating there would experience some impairment. However, this asset impairment would be mitigated by a concomitant decline in liabilities.

To make this abstract scenario more concrete, take the German insurance company (and Fund holding) Allianz, which reports large gross exposure to Italian government bonds, a fact which from time to time elicits concern from investors for obvious reasons. But in fact, Allianz’s Italian subsidiary is the second largest insurance company in Italy, and it holds Italian fixed income securities to balance its Italian liabilities. The likely consequence of this is that any redenomination of Italian assets (*e.g.*, from euro to lira) would be matched by the same redenomination of Italian liabilities, with a muted net impact on the consolidated group.

Furthermore, this concept of self-contained or self-sustaining insurance units would take on even greater importance in another, more draconian scenario. Suppose, for example, that a country were to institute capital controls. One might become concerned that the insurance subsidiary operating in that country might not be able to access capital from its holding company abroad, given said capital controls. But even in this case, the local insurance subsidiary

operating there, with matched assets and liabilities, would be able to use the cash flow from its maturing assets to meet its local liabilities, without needing to access capital from the holding company outside of the country.

### 3. SHARING OF LOSSES WITH POLICYHOLDERS

European life insurance contracts are often based on the idea of policyholder participation: profits (and losses) from the insurer’s investment portfolio are shared between policyholders and shareholders, sometimes with a rigid ratio. Therefore, money defaults and impairments of investment assets do not fall directly to shareholders’ equity; the net impact to shareholders is smaller than the gross exposure might suggest.

**“If anything, financial crises provide opportunities to insurance companies to take advantage of their excess liquidity, at times when their banking and investment banking counterparts might be paralyzed by distress.”**

Specific arrangements on policyholder participation in profits and losses differ greatly from country to country and from product to product, making it difficult to generalize. Local regulators have the final say on the allocation of profits and losses and on minimum guaranteed returns. Insurance companies have built up reserves for investment losses (from excess profits in previous years), and are able to draw these reserves down under adverse conditions. In

effect, these reserves provide an additional cushion protecting the financial strength of insurance companies.

Although the encouraging attributes highlighted above might be considered to be theoretical, actual historical experience has, in fact, confirmed the greater resilience of the insurance model, versus the banking model, during periods of adversity. When insurance companies become impaired, it tends to be as a result of underwriting mistakes; it is relatively less common for an insurance company to blow up because of investment mistakes. And as noted above, one of our criteria that the Fund’s insurance investments must meet is a demonstrated ability to

### Third Avenue International Value Fund (continued) (Unaudited)

underwrite profitably over a reasonable period of time. We believe that insisting on this attribute significantly limits the odds of being felled by the banana peel that has often been the culprit behind most insurance company impairments.

If anything, financial crises provide opportunities to insurance companies to take advantage of their excess liquidity, at times when their banking and investment banking counterparts might be paralyzed by distress. A sterling example of such a maneuver was Munich Re's acquisition of Hartford Steam Boiler from AIG in the depths of the 2009 financial crisis, at such an attractive valuation that it led former AIG Chairman and CEO Hank Greenberg to send an angry, open letter to AIG's Board of Directors. More recently, Allianz has expressed interest in providing liquidity to the sovereign credit market by participating in a public/private bond insurance program, at the right price.

In conclusion, we will continue to monitor European developments closely. We believe that the companies in which we have invested are resilient and will emerge from the crisis unimpaired, while offering attractive prospective returns to long-term investors.

#### GEOGRAPHICAL DISTRIBUTION OF INVESTMENTS

At the end of October 2011, the geographical distribution of securities held by the Fund was as follows:

Country	% of Net Assets
Canada	11.78
United Kingdom	10.10
United States	8.62
Singapore	7.90
Japan	7.54
Germany	6.71
Poland	5.65
France	5.38
Hong Kong	4.13
Austria	3.26
Finland	2.92
Taiwan	2.76
South Korea	2.68

Country	% of Net Assets
Bermuda	2.56
Switzerland	2.29
Greece	1.70
New Zealand	1.68
Chile	1.62
Sweden	1.31
Norway	0.89
Equities-total	91.48
Cash & Other	8.52
Total	100.00%

Note that the table above should be viewed as an *ex-post* listing of where our investments reside, period. As we have noted in prior letters, there is no attempt to allocate the portfolio assets among countries (or sectors) based upon an overarching macroeconomic view or index-related considerations.

#### LOOKING BACK ON THE PAST TEN YEARS

As the Fund approaches the tenth anniversary of its inception, I would like to express my gratitude to our shareholders who have allowed the Fund the possibility of engaging in our long-term investing approach in a world increasingly populated by investors (nay, traders) with ever shrinking time horizons. This has afforded us the opportunity of investing our fellow shareholders' assets in, what we believe to be, an unusually attractive portfolio of investment opportunities. An endeavor such as this one, with its attendant labor intensity, cannot be the work of a single person (notwithstanding the single signature at the bottom of this letter), but is rather the product of a collective effort of a team of hardworking and unusually bright investment analysts for whose input and support I am grateful. The group has grown over a number of years, mirroring the Fund's development, and reflects a variety of "vintages" of seasoning, with Matt Fine being the first to join me in 2004, and our most recent addition, Michael Campagna who joined us after five years in other parts of the research department at Third Avenue. I am thankful to

**Third Avenue International Value Fund (continued)**  
**(Unaudited)**

the entire Third Avenue team for their hard work and dedication. I look forward to continuing our work together to create long-term value for our fellow shareholders for many years to come.

I look forward to writing to you again when we publish our Quarterly Report for the period ended January 31, 2012. Best wishes for a happy and prosperous New Year.

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

## Third Avenue Focused Credit Fund (Unaudited)



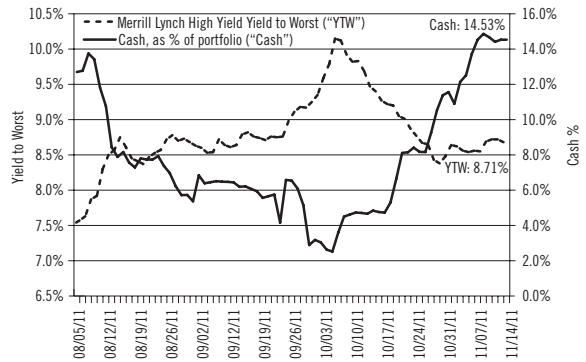
**THOMAS LAPOINTE**  
PORTFOLIO MANAGER OF THIRD AVENUE  
FOCUSED CREDIT FUND

Dear Fellow Shareholders,

The period ending October 31, 2011 was marked by global economic panic, particularly in the sovereign bond markets of Europe's periphery, but also extending to equities and speculative grade corporate credits worldwide. U.S. Treasuries were once again the world's safest haven, and highly rated corporates, which tend to trade in line with Treasuries, also performed well. Amidst this backdrop, the Third Avenue Focused Credit Fund (the "Fund") experienced mark-to-market declines, as did all risk assets, worldwide.

As the chart below illustrates, the Fund began and ended the fiscal quarter with approximately 15% cash. Our price discipline has led us to the result we want – during the quarter, we took advantage of market volatility by putting that cash to work. As prices were falling (and yields rising), we increased existing positions by \$190 million, at an average of 68% of par. Separately, and later in the quarter, we sold other securities that reached our target prices (an average 108% of par), raising \$100 million in cash. We also initiated two new toe-hold

positions in potential restructurings, purchasing bonds in K. Hovnanian Homes and wholesale power distributor Dynegy.



### PUTTING A PRICE ON ITALY

Once upon a time, as the European Union was being contemplated and before England wisely chose to keep its Pound Sterling (and the right to control its own monetary policy), the saying was, "A successful Euro would have German efficiency, Italian cooking and British humor;

Portfolio holdings are subject to change without notice. The following is a list of Third Avenue Focused Credit Fund's 10 largest issuers, as of October 31, 2011: Lehman Brothers Holdings, 4.90%; IntelSat Luxembourg SA, 4.46%; Koosharem Corp., 4.00%; Caesars Entertainment Operating Co., Inc., 3.97%; Energy Future Holdings Corp./TXU Corp., 3.93%; Nuveen Investments, Inc., 3.62%; Clear Channel Communications, Inc., 3.61%; Energy XXI, 3.59%; Platinum Energy Solutions, Inc., 2.89%; and Aveos, 2.72%.

### Third Avenue Focused Credit Fund (continued) (Unaudited)

while a failure would feature German humor, Italian efficiency and British food.” So the tale continues today, with the euro driving over a cliff in a 1980s model Italian Fiat, eating mushy peas while Germany, presented with the bill for this trip, is not in a laughing mood.

Over the last year, my team and I have spoken with many of you, our fellow Third Avenue Focused Credit Fund shareholders, at conferences and on conference calls. We have discussed how excited we are about our portfolio and why we feel the securities that we own are undervalued and properly positioned in the capital structure. But, at some point, the conversation always turns to the European sovereign debt crisis and Italy, in particular. You want to know how a major sovereign default in Europe will affect capital markets worldwide and, as a result, our portfolio. We have long been aware that an Italian debt default is a risk (the European debt problem grew over the course of a decade and has been in crisis mode for more than 18 months); but, we believe that the consequences of Italy defaulting would be so widespread that the European Union and ECB would not allow the world’s third largest debtor to default.

Despite this opinion, it is our job to answer this question and to know what the consequences will be if Europe’s (and Italy’s) technocrats fail the world. We examined Italy’s income statement and its capital structure in order to calculate the potential recovery value of its bonds in the event of a default or restructuring. We are not sovereign debt experts, but we believe that it will be interesting and illustrative to analyze Italy as if it were a corporate credit. To our knowledge, no one has looked at it this way. Since Italy does not control its own monetary policy (just like a corporation), it either has to find a way to service, pay off and refinance its debts, or it needs to restructure. By analyzing Italy as a corporate credit we tried to quantify the potential consequences of a botched Italian job.

#### WHAT DOES ‘ITALY CO.’ LOOK LIKE?

We examined the country the same way we would look at any potential investment for the Fund. We determined Italy’s capacity to pay and service its debt, its free cash flow,

its interest coverage and its growth prospects. We looked at the value of the enterprise by examining both its income statement (the cash flow approach) and its balance sheet (the asset approach).

<u>Italy’s Income Statement</u>	<u>(FY 2010, in € billions)</u>
Taxes	510
Pension contributions	<u>210</u>
<b>Total Revenues</b>	<b>720€</b>
Employee Compensation	170
Other Consumption	140
Pension Expense	240
Other Welfare	60
Other Expense	<u>60</u>
<b>Total Expenditure</b>	<b>670€</b>
<b>EBITDA</b>	<b>50€</b>
Interest	-70
Capex	<u>-50</u>
<b>Free Cash flow</b>	<b>-70€</b>
Total Debt	1,843€
Leverage	36.9x
Interest Coverage	0.7x
EBITDA/Interest + Capex	0.4x

Source: Update of the 2011 Economic and Financial Document, submitted by Prime Minister Silvio Berlusconi, September 2011, TAM calculations.

**Income statement valuation:** Granted, unlike corporate issuers, a country is not run for a profit (zero surplus); yet, we calculated that Italy has only around €50 billion in EBITDA on a budget of near €720 billion and we expect this number to turn negative without an increase in taxes and/or cost cuts. If Italy were a corporation, like General Motors, we would also look at their underfunded pension liabilities as quasi-debt that needs to be funded and accounted for. We estimate that the underfunding is in excess of €3 trillion (according to BIS data) and could be viewed as additional debt that the country needs to support.

The government relies on taxes for about 70% of revenues, with the remaining 30% coming from social

### Third Avenue Focused Credit Fund (continued) (Unaudited)

security contributions. Europe (and Italy, in particular) is increasingly showing signs that it is headed for a recession, making it hard to imagine how tax collections from income generation will increase. Already one of the most heavily taxed countries, Italy's population is paying 46-47% of GDP in taxes (versus 29-31% in the U.S.), a number that has been consistent over the past 15 years. But, trying to cut costs is hard too. Aging demographics and a softening economy only seem to increase its bloated cost structure. As important are Italy's spiking borrowing rates, which are a focus for many concerned investors. Like a stressed corporate issuer, on November 10, Italy issued €5 billion 10-year Buoni del Tesoro Poliennali ("BTPs"), Italian Treasury bonds, at a yield of 6.09%, the highest since September 1997. Refinancing all its debt today at 7% would increase interest expense by €60 billion to about €130 billion annually. With €50 billion of EBITDA and €1.84 billion of debt, we calculate Italian leverage of over 35 times! By most traditional credit metrics, Italy Co. would have been in default and been restructured long ago.

**Balance sheet valuation:** Analyzing a country's balance sheet is difficult and less relevant than the income statement approach, since it is often hard to see how the assets could be monetized. We have found valuations for centrally and locally owned assets and read about how Italian households are well capitalized. The favorable household picture would help act as a buffer in an economic downdraft, but it does not help complete our balance sheet analysis. Country assets sales are difficult to monetize. Ask Greece which tried and failed to sell €50 billion of assets a few months ago. It is also hard for us to imagine how Italian debt holders (often countries) would be allowed to peacefully enter Italy to stake a claim on national treasures.

**What is the right capital structure and what is the recovery value of Italy's bonds?** Below we offer three attempts to answer this question, each from a slightly different perspective. First, we look at what Italy would have to do to bring its finances in-line with what would be expected of a high-yield corporate borrower. Next, what Italy would have to do to bring itself into compliance with the Maastricht Treaty, which defines

the parameters of EU membership. Finally, we look at Italy in terms of previous sovereign defaults.

<b>Scenario 1: High-Yield Issuer</b>	<b>€ (in billions)</b>	<b>Price</b>
Current Debt	1,843€	100%
EBITDA	50€	
Current Leverage	36.9x	
<b>Pro Forma EBITDA</b>	<b>100€</b>	
<b>Leverage</b>	<b>5.0x</b>	
Pro Forma debt @ 5x	500€	
Haircut to current debt	73%	27%
Current debt - Pro Forma debt	1,343€	

<b>Scenario 2: Maastricht Treaty</b>	<b>€ (in billions)</b>	<b>Price</b>
Current Debt	1,843€	100%
GDP	1,549€	
Debt/GDP	119%	
<b>Maastricht Treaty</b>	<b>60%</b>	
Pro Forma debt @ Maastricht level	929€	
Haircut to current debt	50%	50%
Current debt - Pro Forma debt	914€	

<b>Scenario 3: Prior Examples</b>	<b>€ (in billions)</b>	<b>Price</b>
Current Debt	1,843€	100%
Argentina	33%	
Greece	30%	
<b>Italy</b>	<b>40%</b>	
Pro Forma debt @ 42% of par	737€	
Haircut to current debt	60%	40%
Current debt - Pro Forma debt	1,106€	

**Scenario 1:** In most industrial corporate credits, five times leverage is considered a levered corporate borrower. If Italy were a corporation, we would expect it to engage in serious cost cutting to get there. Mario Monti and his new government are seeking to improve the budget picture, by making politically difficult decisions and improving the revenue and cost side of the Italian credit story. So, we have increased EBITDA from €50 billion to €100 billion, to give Italy credit for its pro-forma ("PF") adjustments (we go into further detail on these opportunities later in the

## Third Avenue Focused Credit Fund (continued) (Unaudited)

note). Still, this “only” allows for €500 billion of debt at 5 times EBIDTA, implying a 73% haircut to current debt levels, a €1.3 trillion hit to the financial system.

**Scenario 2:** In accordance with the original guidelines laid out in the Maastricht Treaty, we aim to reduce debt to 60% of GDP (versus 119%, as of December 31, 2010). We concede that debt to GDP of 60% would be among the lowest in the EU, acknowledging that the only two EU member states that met this criteria, as of the end of 2010, were Poland and the Czech Republic. Offsetting this potentially unfair standard, is that current economic indicators suggest GDP is declining, meaning the denominator is also declining, and 60% would already be a stale ratio by 2011. The haircut under this scenario is still hardly a small number, at €900 billion.

**Scenario 3:** Historical numbers suggest a recovery for sovereign debt holders may be close to 40 cents on the dollar. Argentina, by contrast, admittedly had a sharp currency devaluation that significantly complicates the analysis, but using a number in the low 30s would actually be conservative by this measure. Greece’s story is still unfolding, but as of this writing, debt is currently trading at 30 cents on the dollar. Argentina and Greece are arguably worse off than Italy, so we are using a 40 cent estimate, which will leave the market to sustain a write-off of €1.1 trillion in value.

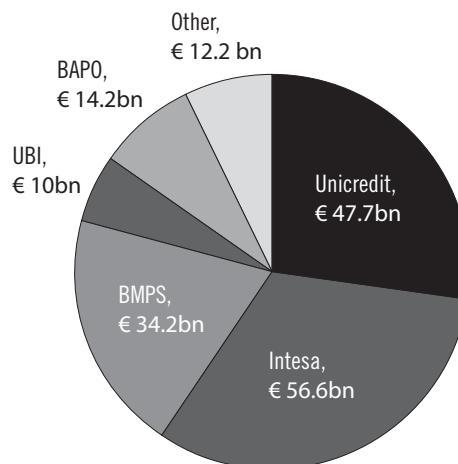
### THE CONSEQUENCES OF AN ITALIAN HAIRCUT

As you can see from our three separate analyses, under any circumstance, the cost to the world financial system is around €1 trillion. That’s three times the market capitalization of every public German, French and Italian bank and insurance company combined, or 11 J.P. Morgan Chases.

Italy is practically shut out of the capital markets today, as are many of the European banks that have significant sovereign debt exposure on their balance sheets. Currently, the ECB is acting as the buyer of last resort for the funding needs of the banking system and sovereign new issues. Deals would not get done without them.

### ITALIAN BANK EXPOSURE TO ITALIAN SOVEREIGN DEBT

The pie chart below illustrates which Italian banks hold €175 billion in Italian sovereign debt.



Source: Goldman Sachs research and company reports

The following table shows who owns Italy’s debt and would, therefore, need to absorb the estimated €1.1 trillion in losses we discussed on the preceding page, if Italy were to default.

### Third Avenue Focused Credit Fund (continued) (Unaudited)

#### WHO OWNS ITALY'S DEBT?

	June 2011 (€Bn)	June 2011 % of total	September 2011 (€Bn)	September 2011 % of total
<b>ECB - SMP (Non-Italian NCB)<sup>1</sup></b>			54	3%
<b>ECB - SMP (Central Bank of Italy)<sup>1</sup></b>			12	1%
Central Bank of Italy <sup>2</sup>	69		69	
Italy Monetary Financial Institutions <sup>2</sup>	244		267	
Italy Other Financial <sup>2</sup>	259		247	
Italian Resident <sup>1</sup>	211		214	
<b>Domestic Holdings</b>	<b>783</b>	<b>49%</b>	<b>797</b>	<b>50%</b>
European Non-Italian Banks <sup>3</sup>	154		134	
US Banks <sup>3</sup>	8		8	
Japanese Banks <sup>3</sup>	21		21	
Italian funds managed abroad	96		96	
Of which, at least:				
<i>Asia<sup>4</sup></i>		95		95
<i>Remaining other<sup>4</sup></i>		215		176
Remaining others		310		271
European Non-Italian Insurance and Mutual Funds <sup>5</sup>		230		210
Others	540		481	
<b>Foreign Holdings</b>	<b>819</b>	<b>51%</b>	<b>740</b>	<b>46%</b>
<b>TOTAL<sup>5</sup></b>	<b>1,602</b>		<b>1,603</b>	

<sup>1</sup> Morgan Stanley Estimate

<sup>2</sup> Banca d'Italia data

<sup>3</sup> BIS data as of September 31, 2011 and Morgan Stanley Estimate

<sup>4</sup> Largely International Asset Managers

<sup>5</sup> Does not include €300 billion of short-term debt

When Lehman Brothers collapsed it took the world economy with it by freezing the commercial paper markets and causing some U.S. money market funds to break the buck. Lehman had \$100 billion in bonds outstanding and \$8 billion worth of commercial paper. U.S. money market funds own \$200 billion in commercial paper tied to banks with exposure to the Euro zone and there are \$2.5 trillion worth of Italy bonds outstanding. The situation is fraught with peril at much

larger magnitudes than Lehman presented. A disorderly Italian default would be at least ten times greater than a Lehman Brothers event.

Below is a table of current sovereign debt prices and implied probabilities of default.

Country	Price of 10-year Bond*	Probability of Default
Spain	93¢	54%
Italy	87¢	59%
Ireland	82¢	64%
Portugal	59¢	78%
Greece	27¢	100%

\* Assumes a 40 cent recovery  
Source: Broker-dealer pricing

#### HOW DOES THIS GET FIXED?

The good news is that Italy can help itself. But, time is not on its side. Italy faces €200 billion in maturities that will all need to be refinanced by the end of the first quarter of 2012. If its refinancing efforts fail, one of the disaster scenarios described above is a likely result.

We are in an environment where MFGlobal filed for bankruptcy two days after disclosing its Italian holdings. Jefferies had to disclose CUSIP level details of its holdings and even the mighty Goldman Sachs had to disclose trading desk details of its periphery sovereign debt holdings, something it has never done in the past. In this environment of fear, what institutional fund manager would risk his job to buy Italy debt? This culture of fear must give way to the more natural culture of greed. This is Italy's mission right now – to make its 7% yields more attractive than the safety of Germany's 3%, the U.S.'s 2% or Japan's 1%. Currently, 40% of the high-yield market (as measured by the Merrill Lynch High-Yield Index) trades at a yield lower than Italy's 10-year debt obligations.

Italy must earn the world's confidence and the support of the European Central Bank (with the winking ascent of Germany's Angela Merkel) in order to get the help it

### Third Avenue Focused Credit Fund (continued) (Unaudited)

needs to deal with its immediate maturities. Italy already took a major step towards winning confidence when the Silvio Berlusconi soap opera was ended and Monti, a former European Commissioner, became both prime minister and finance minister. Now he needs to announce and implement a plan that is feasible and will gain credibility with the markets. In the long run, Italy needs to convince the world that it can improve its balance sheet and grow its economy.

The Italian government could sell equity in various companies that it owns for between €50-100 billion. Divesting some of these assets is a good option for a country that wants to raise funds, without selling the cultural and historic assets that would mean the most to its citizens. Monti will also need to lead a massive, long-term cost cutting program, selectively taking 3-6% out of the overall budget (€25-€50 billion) with care not to harm overall GDP growth.

Like Greece, Italy is going to have to raise tax revenue amidst a culture of tax avoidance. Unlike Greece, Italy has a wealthy private sector with net assets of €8.6 trillion. That Italy has such vast wealth to tax gives it a great advantage over other troubled European economies. The government can raise a one-time tax on wealth (property or assets) to help deal with the current crisis; this was successfully implemented in 1992. More importantly, the government needs to make efforts to move Italy's massive cash-driven, black market economy into the taxable mainstream. It has been estimated that approximately €300 billion in untaxed revenue is derived from these black markets. Success here would be an enormous structural improvement that would broaden Italy's tax base and permanently strengthen its finances; although, these measures will certainly be met with strong opposition, especially from younger tax payers who feel that they are wrongly being taxed for a debt they did not create.

In that vein, Italy needs to make structural changes to encourage labor mobility and efficiency. The era of bribing guilds for jobs has to end.

Finally, and this will be the most difficult task, Italy has to establish that it can grow its GDP, despite barely positive GDP estimates for the next year. This has eluded the country for the past 20 years, with living standards propped up by debt.

So, what does all of this mean for our portfolio? We view the probability of Italy defaulting on its obligations to be very low and, therefore, do not expect a Lehman-like event to occur. However, in the event that our analysis is wrong and Europe and the ECB are not able to deal with the problems that lie before them, we believe that the world's equity markets and all "risk assets" will go through a period similar to 2008.

In order to protect our shareholders, we have taken measures to defensively position the portfolio. We sold 50% of the equity securities that the Fund acquired through restructurings and are maintaining a prudent cash position of approximately 15%. To further mitigate the impact of a freeze of the capital markets, subsequent to quarter end, we purchased tail-risk protection, at a cost of 0.50%, that should provide for 10-20 times return, in the event of major declines in the broad markets. As always, we maintain our objective of investing in the fulcrum securities of companies with high-quality assets, so that our investment is adequately covered in the event of a restructuring. In the long run, if we have done our job correctly, we could look back on this as a time of amazing opportunities that generated equity-like returns.

If Italy succeeds in its mission, it might even prove something of a blueprint for other heavily indebted economies. The U.S. and Japan have so far managed to live with their own very high debt-to-GDP ratios by printing money to cover obligations. But, that is a temporary answer. Perhaps Italy will show the way to more lasting solutions.

**Third Avenue Focused Credit Fund (continued)**  
**(Unaudited)**

Best wishes for a happy and healthy New Year. I look forward to writing to you in January, at the end of our first fiscal quarter of 2012.

Sincerely,

A handwritten signature in black ink, appearing to read 'Thomas Lapointe', written in a cursive style.

Thomas Lapointe  
Portfolio Manager,  
Third Avenue Focused Credit Fund

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**Third Avenue Value Fund**

**Third Avenue Small-Cap Value Fund**

**Third Avenue Real Estate Value Fund**

**Third Avenue International Value Fund**

**Third Avenue Focused Credit Fund**

**ANNUAL REPORT**

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October 31, 2011

## **THIRD AVENUE FUNDS**

### **Privacy Policy**

Third Avenue Funds (the “Funds”) respect your right to privacy. We also know that you expect us to conduct and process your business in an accurate and efficient manner. To do so, we must collect and maintain certain personal information about you. This is the information we collect from you on applications or other forms and from the transactions you make with us, our affiliates, or third parties. We do not disclose any information about you or any of our former customers to anyone, except to our affiliates (which may include the Funds’ affiliated money management entities) and service providers, or as otherwise permitted by law. To protect your personal information, we permit access only by authorized employees. Be assured that we maintain physical, electronic and procedural safeguards that comply with federal standards to guard your personal information.

### **Proxy Voting Policies and Procedures**

The Funds have delegated the voting of proxies relating to their voting securities to the Funds’ investment adviser pursuant to the adviser’s proxy voting guidelines. A description of these proxy voting guidelines and procedures, as well as information relating to how a Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30, is available by August 31, each year (i) without charge, upon request, by calling (800) 443-1021, (ii) at the website of the Securities and Exchange Commission (“SEC”) at <http://www.sec.gov>, and (iii) on the Funds’ website [www.thirdave.com](http://www.thirdave.com).

### **Schedule of Portfolio Holdings—Form N-Q**

The Funds file their complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Funds’ Form N-Q is available on the SEC’s website at <http://www.sec.gov>, and may be reviewed and copied at the SEC’s Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

**Third Avenue Trust**  
**Third Avenue Value Fund**  
**Portfolio Management Discussion – October 31, 2011**  
**(Unaudited)**

At October 31, 2011, the audited net asset value attributable to each of the 580,606 common shares outstanding of the Third Avenue Value Fund Investor Class and 78,296,767 common shares outstanding of Third Avenue Value Fund Institutional Class were \$44.00 and \$44.08 respectively. This compares with audited net asset values at October 31, 2010 of \$49.19 and \$49.16 per share respectively, adjusted for a subsequent distribution to shareholders.

	Average Annual Returns for the periods ended October 31, 2011				
	One Year ended 10/31/11	Three Year	Five Year	Ten Year	Since Inception
Third Avenue Value Fund Investor Class†	(10.62%)	N/A	N/A	N/A	(1.83%)
Third Avenue Value Fund Institutional Class^	(10.42%)	9.63%	(3.42%)	5.52%	11.54%
MSCI World Index‡*	2.30%	11.39%	(0.45%)	5.08%	7.03%
S&P 500 Index‡	8.09%	11.41%	0.25%	3.69%	9.22%

† Investor Class commenced investment operations on December 31, 2009.

^ Institutional Class commenced investment operations on November 1, 1990.

‡ The date used to calculate the Since Inception performance for the index is the inception date of the Institutional Class.

\* Additional benchmark used by the Fund effective March 1, 2011.

The relative under-performance of Third Avenue Value Fund (the “Fund”) for the year is attributable to its investments in Hong Kong-based real estate and holding companies, as well as to its investment in POSCO, a South Korean steel company. In both cases, we believe that macro concerns about a slowdown in China’s economic growth, caused by its government’s attempts to curb housing price inflation and to manage economic activity, have caused stock prices in the region to diverge sharply from underlying business performance, which has been positive.

The Fund’s two largest detractors were Henderson Land Development and Cheung Kong Holdings, two Hong Kong real estate and investment companies. The third largest detractor was POSCO.

The top contributor for the year was Toyota Industries, a Japanese industrial company that is the single largest shareholder of Toyota Motor. The company’s stock price rose during the year despite the March earthquake in Japan, which disrupted some of Toyota Industries operations.

The next most significant performance contributor was Cimarex Energy. Cimarex, an independent oil and gas company, saw its share price grow dramatically during the year as the company consistently reported strong operating results and growing reserves. We exited the position as it reached full value. We continue to watch Cimarex and would consider bringing it back into the portfolio at the right price.

The most significant new addition to the portfolio during the year was Hutchison Whampoa, a Hong Kong-based conglomerate that is the world’s largest ports operator and also has telecommunications, real estate, infrastructure, energy and retail assets worldwide.

**Third Avenue Trust**  
**Third Avenue Value Fund**  
**Portfolio Management Discussion (continued)**  
**(Unaudited)**

THE INFORMATION IN THE PORTFOLIO MANAGEMENT DISCUSSION REPRESENTS A FACTUAL OVERVIEW OF THE FUND'S PERFORMANCE AND IS NOT INTENDED TO BE A FORECAST OF FUTURE EVENTS, A GUARANTEE OF FUTURE RESULTS NOR INVESTMENT ADVICE. VIEWS EXPRESSED ARE THOSE OF THE INVESTMENT TEAM AND MAY DIFFER FROM THOSE OF OTHER INVESTMENT TEAMS OR THE FIRM AS A WHOLE. ALSO, PLEASE NOTE THAT ANY DISCUSSION OF THE PORTFOLIO'S HOLDINGS, THE FUND'S PERFORMANCE, AND THE INVESTMENT TEAM'S VIEWS ARE AS OF OCTOBER 31, 2011, AND ARE SUBJECT TO CHANGE.

The Fund's performance may be influenced by a foreign country's political, social and economic situation. Other risks include currency fluctuations, less liquidity, lack of efficient trading markets, and different auditing and legal standards. These risks may result in more volatility for the Fund. These and other risks are described more fully in the Fund's prospectus.

Third Avenue Value Fund **is offered by prospectus only**. The prospectus contains more complete information on advisory fees, distribution charges, and other expenses and should be read carefully before investing or sending money. Past performance is no guarantee of future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than original cost. The Fund's returns should be viewed in light of its investment policy and objectives and quality of its portfolio securities and the periods selected. M.J. Whitman LLC Distributor.

If you should have any questions, or for updated information (including performance data current to the most recent month-end) or a copy of our prospectus, please call 1-800-443-1021 or go to our web site at [www.thirdave.com](http://www.thirdave.com). Current performance may be lower or higher than performance quoted.

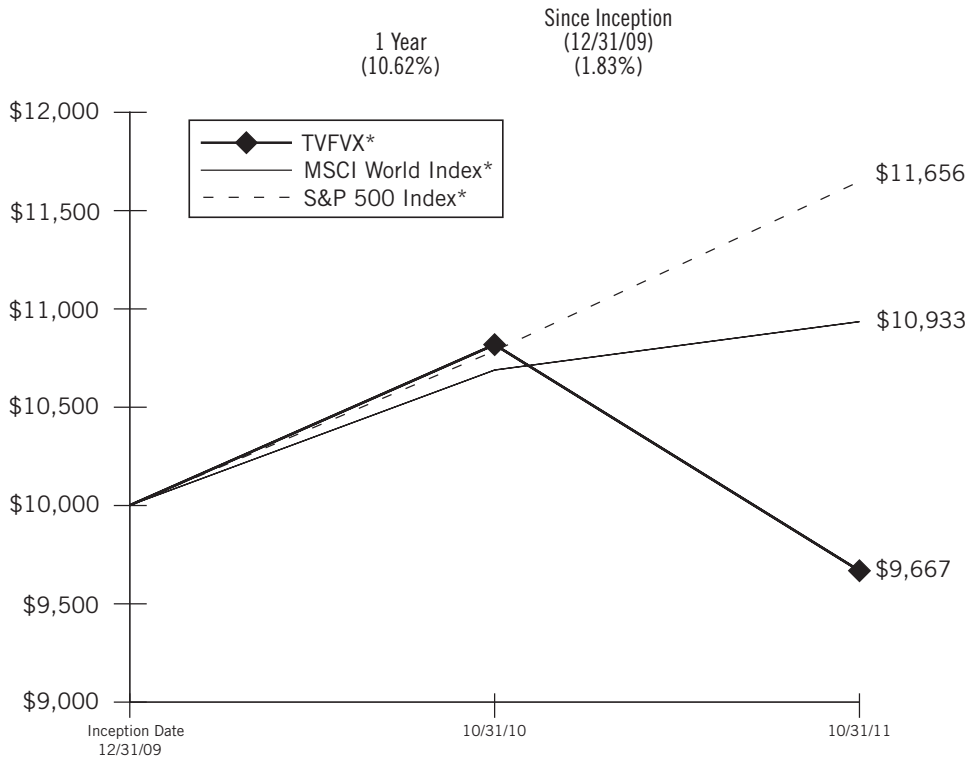
The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of 23 of the world's most developed markets. The S&P 500 Index is a widely recognized benchmark of U.S. stock market performance that is dominated by the stocks of large U.S. companies. The MSCI World Index and the S&P 500 Index are not securities that can be purchased or sold, and their total returns are reflective of unmanaged portfolios. The returns include reinvestment of all distributions.

**Third Avenue Trust**  
**Third Avenue Value Fund – Investor Class**  
**Comparison of a \$10,000 Investment**  
**(Unaudited)**

**Performance Illustration**

COMPARISON OF CHANGE IN VALUE OF A \$10,000 INVESTMENT IN *THIRD AVENUE VALUE FUND – INVESTOR CLASS (TVFVX)*,  
 THE MSCI WORLD INDEX AND THE STANDARD & POOR'S 500 INDEX (S&P 500 INDEX)  
 FROM INCEPTION OF THE FUND (12/31/09) THROUGH OCTOBER 31, 2011

**Average Annual Total Return**



\* Includes reinvestment of all distributions.

As with all mutual funds, past performance does not indicate future results. Performance may reflect fee waivers, expense offset arrangement and/or recovery. Total return would have been lower if the Adviser had not waived certain expenses. Conversely, total return would have been higher if the Adviser had not recovered previously waived expenses. Also, the returns shown in the graph and table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

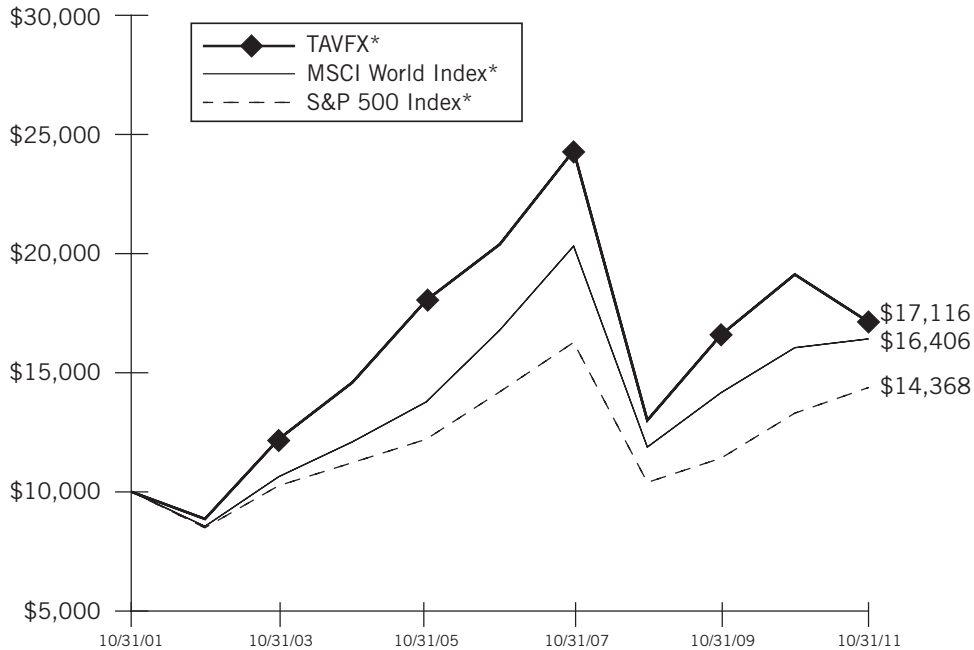
**Third Avenue Trust**  
**Third Avenue Value Fund – Institutional Class**  
**Comparison of a \$10,000 Investment**  
**(Unaudited)**

**Performance Illustration**

COMPARISON OF CHANGE IN VALUE OF A \$10,000 INVESTMENT IN **THIRD AVENUE VALUE FUND – INSTITUTIONAL CLASS (TAVFX)**,  
 THE MSCI WORLD INDEX AND THE STANDARD & POOR'S 500 INDEX (S&P 500 INDEX)  
 FOR THE TEN YEARS ENDED OCTOBER 31, 2011

**Average Annual Total Return**

1 Year (10.42%)	3 Years 9.63%	5 Years (3.42%)	10 Years 5.52%
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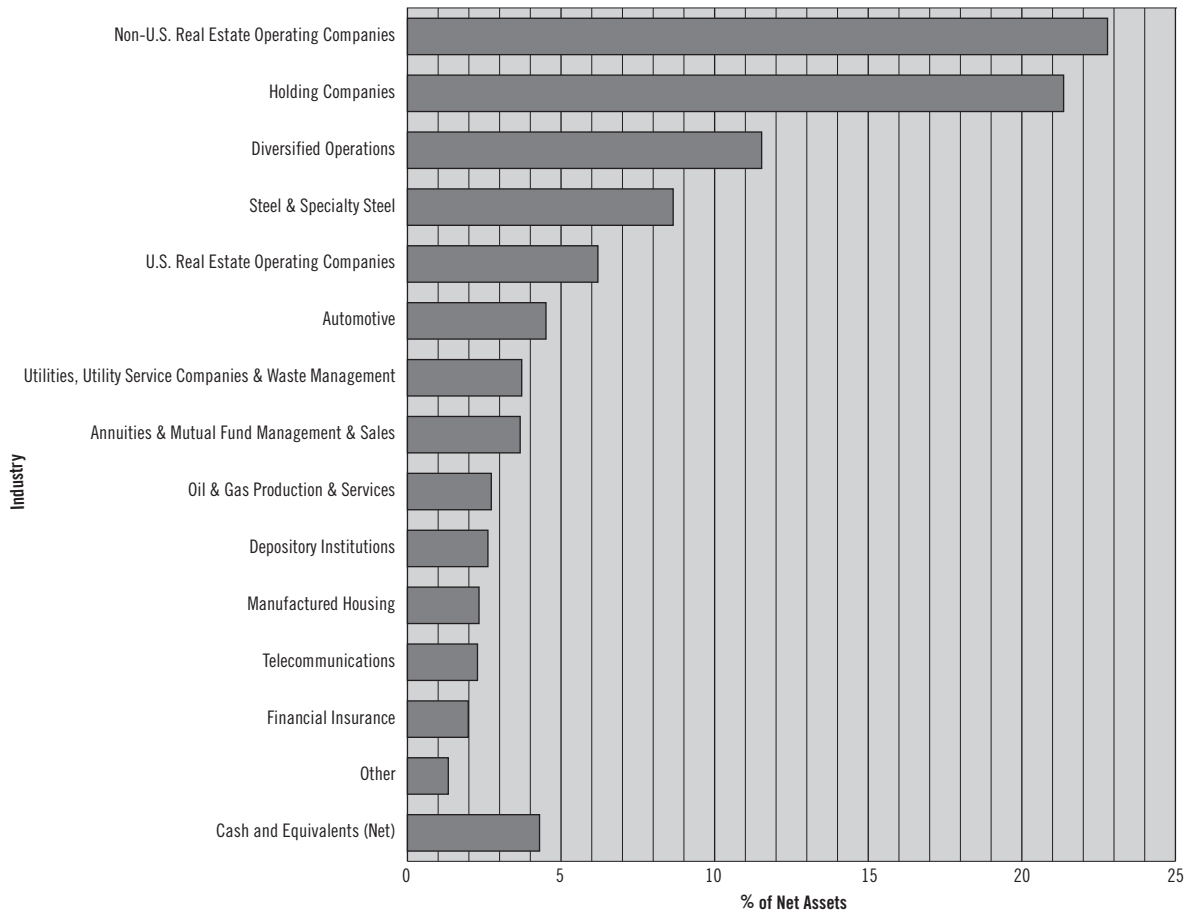


\* Includes reinvestment of all distributions.

As with all mutual funds, past performance does not indicate future results. Performance may reflect fee waivers, expense offset arrangement and/or recovery. Total return would have been lower if the Adviser had not waived certain expenses. Conversely, total return would have been higher if the Adviser had not recovered previously waived expenses. Also, the returns shown in the graph and table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

**Third Avenue Trust  
Third Avenue Value Fund  
Industry Diversification  
(Unaudited)**

The summary of the Fund's investments as of October 31, 2011 is as follows:



*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust  
Third Avenue Value Fund  
Portfolio of Investments  
at October 31, 2011**

Principal Amount (\$)	Value (Note 1)	Shares	Value (Note 1)
<b>Corporate Debt Instruments - 2.01%</b>			
			<b>Depository Institutions - 2.62%</b>
	<b>Consumer Products - 0.05%</b>	218,500	Carver Bancorp, Inc. (a) (c) \$ 87,400
18,010,162	Home Products International, Inc., 2nd Lien, Convertible, PIK, 6.000%, due 3/20/17 (b) (c) (e) \$ 1,593,899	10,728,450	Chong Hing Bank, Ltd. (Hong Kong) 20,293,472
		10,000,000	KeyCorp 70,600,000
			<u>90,980,872</u>
	<b>Financial Insurance - 1.96%</b>		<b>Diversified Operations - 11.53%</b>
136,630,000	MBIA Insurance Corp., 14.000%, due 1/15/33 (d) (f) 68,315,000	5,679,897	Brookfield Asset Management, Inc., Class A (Canada) 164,717,013
	<b>Total Corporate Debt Instruments</b> (Cost \$154,175,909) 69,908,899	16,819,000	Hutchison Whampoa, Ltd. (Hong Kong) 153,834,037
		15,511,822	Wharf (Holdings), Ltd. (The) (Hong Kong) 82,511,202
			<u>401,062,252</u>
<b>Shares</b>			
<b>Preferred Stocks - 0.01%</b>			
	<b>Insurance &amp; Reinsurance - 0.01%</b>		<b>Financial Insurance - 0.02%</b>
4,775	Ecclesiastical Insurance, 8.625% (United Kingdom) 8,426	37	Manifold Capital Holdings, Inc. (a) (b) (c) (e) 555,000
1,022,245	RS Holdings Corp., Convertible, Class A (a) (b) (c) (e) 194,023		
	<b>Total Preferred Stocks</b> (Cost \$1,022,936) 202,449	83,370	<b>Holding Companies - 21.36%</b>
		30,164,000	Capital Southwest Corp. 7,337,394
		8,579,575	Cheung Kong Holdings, Ltd. (Hong Kong) 373,910,860
		160,000,000	Investor AB, Class A (Sweden) 162,780,187
			Lai Sun Garment International, Ltd. (Hong Kong) (a) (c) 14,714,036
	<b>Annuities &amp; Mutual Fund Management &amp; Sales - 3.67%</b>	1,334,600	RHJ International (Belgium) (a) 6,434,703
6,000,000	Bank of New York Mellon Corp. (The) 127,680,000	1,982,750	RHJ International (Belgium) (a) (e) 9,559,725
		57,217,500	Wheelock & Co., Ltd. (Hong Kong) 168,109,925
			<u>742,846,830</u>
	<b>Auto Supply - 0.00%</b>		<b>Insurance &amp; Reinsurance - 0.00%#</b>
191,736	ISE, Ltd. <sup>1</sup> (a) (b) 0		Olympus Re Holdings, Ltd. (Bermuda) (a) (b) (e) 144,075
460,467	ISE, Ltd. Restricted Voting Shares <sup>1</sup> (a) (b) (e) 0	127,500	
		9,337	RS Holdings Corp., Class A (a) (b) (c) (e) 1,772
	<b>Automotive - 4.51%</b>		<u>145,847</u>
5,579,900	Toyota Industries Corp. (Japan) 156,884,351		<b>Manufactured Housing - 2.33%</b>
	<b>Consumer Products - 0.00%#</b>		Fleetwood Homes, Inc. (a) (b) (c) (e) 80,843,000
526,368	Home Products International, Inc. (a) (b) (c) (e) 26,318	1,014	

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust  
Third Avenue Value Fund  
Portfolio of Investments (continued)  
at October 31, 2011**

Shares		Value (Note 1)	Shares		Value (Note 1)
<b>Common Stocks (continued)</b>			<b>U.S. Real Estate Operating Companies - 6.20%</b>		
47,859	Colonial Financial Services, Inc. (a)	\$ 587,469	9,487,910	FNC Realty Corp. (a) (b) (c)	\$ 6,641,537
232,032	FedFirst Financial Corp. (c)	3,120,830	8,764,203	Forest City Enterprises, Inc., Class A (a) (c)	119,894,297
205,511	Gouverneur Bancorp, Inc. (c)	1,448,853	22,500	Forest City Enterprises, Inc., Class B (a) (c)	305,325
249,757	Home Federal Bancorp, Inc. (c)	3,209,377	3,420,106	Tejon Ranch Co. (a) (c)	88,888,555
242,800	SFSB, Inc. (a) (c)	570,580			<u>215,729,714</u>
		<u>8,937,109</u>			
<b>Non-U.S. Real Estate Operating Companies - 22.79%</b>			<b>Utilities, Utility Service Companies &amp; Waste Management - 3.72%</b>		
24,220,000	Hang Lung Group, Ltd. (Hong Kong)	147,196,648	8,816,889	Covanta Holding Corp. (c)	129,255,593
30,534,000	Hang Lung Properties, Ltd. (Hong Kong)	111,199,209			
97,689,054	Henderson Land Development Co., Ltd. (Hong Kong)	533,971,201			
		<u>792,367,058</u>			
<b>Oil &amp; Gas Production &amp; Services - 2.73%</b>			<b>Total Common Stocks</b> (Cost \$3,039,742,022)		
776,800	Cenovus Energy, Inc. (Canada)	26,566,560			<u>3,247,000,293</u>
1,304,301	EnCana Corp. (Canada)	28,303,332			
2,190,000	Nabors Industries, Ltd. (Bermuda) (a)	40,142,700			
		<u>95,012,592</u>			
<b>Semiconductor Equipment Manufacturers &amp; Related - 0.71%</b>			<b>Investment Amount (\$) or Partnership Units</b>		
2,000,000	Applied Materials, Inc.	24,640,000	<b>Limited Partnerships - 0.30%</b>		
3,500,000	POSCO, ADR (South Korea)	300,720,000	400,000	<b>Infrastructure - 0.29%</b> Brookfield Infrastructure Partners L.P. (Canada) <sup>2</sup>	<u>10,036,000</u>
1,871,861	Sycamore Networks, Inc. (c)	35,977,168	1,805,000	<b>Insurance &amp; Reinsurance - 0.01%</b> Insurance Partners II Equity Fund, L.P. (a) (b)	534,952
10,008,450	Tellabs, Inc.	43,336,589			
		<u>79,313,757</u>			
				<b>Total Limited Partnerships</b> (Cost \$8,007,814)	<u>10,570,952</u>
				<b>Total Investment Portfolio - 95.70%</b> (Cost \$3,202,948,681)	3,327,682,593
				<b>Other Assets less Liabilities - 4.30%</b>	<u>149,511,317</u>
				<b>NET ASSETS - 100.00%</b>	<u>\$ 3,477,193,910</u>

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust  
Third Avenue Value Fund  
Portfolio of Investments (continued)  
at October 31, 2011**

Notes:

ADR: American Depository Receipt.

PIK: Payment-in-kind.

- (a) Non-income producing security.
- (b) Fair-valued security.
- (c) Affiliated issuers - as defined under the Investment Company Act of 1940 (ownership of 5% or more of the outstanding voting securities of these issuers).
- (d) Security is exempt from registration under Rule 144A of the Securities Act of 1933. This security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.
- (e) Restricted security subject to restrictions on resale.

Country Concentration

	% of Net Assets
Hong Kong	46.18%
United States	23.46
South Korea	8.65
Canada	6.60
Sweden	4.68
Japan	4.51
Bermuda	1.16
Belgium	0.46
United Kingdom	0.00#
<b>Total</b>	<b>95.70%</b>

Acquisition Shares/ Principal Amount	Issuer	Acquisition Date	Acquisition Cost	10/31/11 Carrying Value Per Unit
1,014	Fleetwood Homes, Inc.	8/14/09-4/29/11	\$70,980,400	\$79,726.82
526,368	Home Products International, Inc.	5/30/07	54,667,471	0.05
18,010,162	Home Products International, Inc. 2nd Lien, Convertible, PIK, 6.000%, due 3/20/17	3/16/07-10/24/11	18,010,162	8.85
460,467	ISE, Ltd., Restricted Voting Shares	3/8/06 - 4/11/08	4,280,822	—
37	Manifold Capital Holdings, Inc.	9/24/97-11/10/06	42,781,514	15,000.00
127,500	Olympus Re Holdings, Ltd.	12/20/01	12,019,608	1.13
1,982,750	RHJ International	3/29/05-3/14/07	50,259,540	4.82
9,337	RS Holdings Corp., Class A	5/9/03	9,105	0.19
1,022,245	RS Holdings Corp., Convertible, Class A Pfd	3/18/02-4/20/04	1,013,140	0.19

At October 31, 2011, these restricted securities had a total market value of \$99,352,515 or 2.86% of net assets of the Fund.

- (f) Variable rate security. The rate disclosed is in effect as of October 31, 2011.

# Amount represents less than 0.01% of total net assets.

<sup>1</sup> Incorporated in Cayman Islands.

<sup>2</sup> Bermuda exempted limited partnership.

# Amount represents less than 0.01% of total net assets.

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust  
Third Avenue Value Fund  
Statement of Assets and Liabilities  
October 31, 2011**

**Assets:**

Investments at value (Notes 1 and 5):	
Unaffiliated issuers (cost of \$2,569,865,071) .....	\$2,840,355,030
Affiliated issuers (cost of \$633,083,610) .....	487,327,563
Total investments (cost of \$3,202,948,681) .....	<u>3,327,682,593</u>
Cash .....	124,207,186
Receivable for securities sold .....	62,714,590
Dividends and interest receivable .....	13,344,090
Receivable for fund shares sold .....	697,454
Tax receivable .....	545,965
Other assets .....	122,654
Other receivables .....	43,847
Total assets .....	<u>\$3,529,358,379</u>

**Liabilities:**

Payable for securities purchased .....	41,015,273
Payable for fund shares redeemed .....	6,199,176
Payable to investment adviser (Note 3) .....	2,899,747
Accrued expenses .....	1,133,934
Payable for shareholder servicing fees (Note 3) .....	812,372
Distribution fees payable (Note 6) .....	73,380
Payable to trustees and officers .....	30,587
Total liabilities .....	<u>52,164,469</u>
Net assets .....	<u>\$3,477,193,910</u>

**Summary of net assets:**

Capital stock, \$0.001 par value .....	\$3,783,400,511
Accumulated distributions in excess of net investment income .....	(22,276,930)
Accumulated net realized losses on investments and foreign currency transactions .....	(408,488,075)
Net unrealized appreciation of investments and translation of foreign currency denominated assets and liabilities .....	124,558,404
Net assets applicable to capital shares outstanding .....	<u>\$3,477,193,910</u>

**Investor Class:**

Net assets applicable to 580,606 shares outstanding, unlimited number of shares authorized .....	<u>\$ 25,546,835</u>
Net asset value, offering and redemption price per share .....	<u>\$44.00</u>

**Institutional Class:**

Net assets applicable to 78,296,767 shares outstanding, unlimited number of shares authorized .....	<u>\$3,451,647,075</u>
Net asset value, offering and redemption price per share .....	<u>\$44.08</u>

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust  
Third Avenue Value Fund  
Statement of Operations  
For the Year Ended October 31, 2011**

**Investment Income:**

Interest - unaffiliated issuers .....	\$ 27,920,553
Interest - affiliated issuers (Note 5) .....	1,007,427
Dividends - unaffiliated issuers (net of foreign withholding tax of \$3,835,094) .....	60,998,545
Dividends - affiliated issuers (Note 5) .....	2,141,460
Other income .....	111,823
Total investment income .....	92,179,808

**Expenses:**

Investment advisory fees (Note 3) .....	41,272,886
Shareholder servicing fees (Note 3) .....	6,402,679
Transfer agent fees .....	1,178,382
Custodian fees .....	786,181
Reports to shareholders .....	700,006
Trustees' and officers' fees and expenses .....	447,341
Administration fees (Note 3) .....	241,515
Accounting fees .....	237,484
Legal fees .....	217,587
Auditing fees .....	149,553
Insurance expenses .....	123,271
Distribution fees (Note 6) .....	63,122
Registration and filing fees .....	54,699
Miscellaneous expenses .....	121,104
Total expenses .....	51,995,810
Recovery of expenses previously waived (Note 3) .....	912,721
Expenses reduced by custodian fee expense offset arrangement (Note 3) .....	(107,832)
Net expenses .....	52,800,699
Net investment income .....	39,379,109

**Realized and unrealized gain/(loss) on investments and foreign currency transactions:**

Net realized gain on investments - unaffiliated issuers .....	351,324,048
Net realized loss on investments - affiliated issuers .....	(1,007,059)
Net realized gain on foreign currency transactions .....	190,953
Net change in unrealized appreciation/(depreciation) on investments .....	(790,476,704)
Net change in unrealized appreciation/(depreciation) on translation of other assets and liabilities denominated in foreign currency .....	(366,684)
Net loss on investments and foreign currency transactions .....	(440,335,446)

**Net decrease in net assets resulting from operations** ..... \$ (400,956,337)

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust  
Third Avenue Value Fund  
Statement of Changes in Net Assets**

	<u>For the Year Ended October 31, 2011</u>	<u>For the Year Ended October 31, 2010</u>
<b>Operations:</b>		
Net investment income .....	\$ 39,379,109	\$ 81,858,040
Net realized gain on investments - unaffiliated issuers .....	351,324,048	85,031,261
Net realized gain/(loss) on investments - affiliated issuers .....	(1,007,059)	32,288,004
Net realized gain/(loss) on foreign currency transactions .....	190,953	(330,285)
Net change in unrealized appreciation/(depreciation) on investments .....	(790,476,704)	520,891,614
Net change in unrealized appreciation/(depreciation) on translation of other assets and liabilities denominated in foreign currency .....	(366,684)	152,864
Net increase (decrease) in net assets resulting from operations .....	<u>(400,956,337)</u>	<u>719,891,498</u>
<b>Dividends and Distributions to Shareholders from:</b>		
Net investment income:		
Investor Class .....	(380,280)	—
Institutional Class .....	(93,625,411)	(141,917,365)
Decrease in net assets from dividends and distributions .....	<u>(94,005,691)</u>	<u>(141,917,365)</u>
<b>Capital Share Transactions:</b>		
Proceeds from sale of shares .....	281,493,639	464,300,106
Net asset value of shares issued in reinvestment of dividends and distributions .....	89,053,928	130,284,578
Redemption fees .....	46,631	87,629
Cost of shares redeemed .....	(1,457,099,508)	(1,802,261,235)
Net decrease in net assets resulting from capital share transactions .....	<u>(1,086,505,310)</u>	<u>(1,207,588,922)</u>
Net decrease in net assets .....	(1,581,467,338)	(629,614,789)
Net assets at beginning of year .....	<u>5,058,661,248</u>	<u>5,688,276,037</u>
Net assets at end of year (including accumulated distributions in excess of net investment income of \$(22,276,930) and \$(73,495,715), respectively) .....	<u>\$ 3,477,193,910</u>	<u>\$ 5,058,661,248</u>

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust  
Third Avenue Value Fund  
Financial Highlights**

**Selected data (for a share outstanding throughout each period) and ratios are as follows:**

	<u>For the Year Ended October 31, 2011</u>	<u>For the Period Ended October 31, 2010*</u>
<b>Investor Class:</b>		
Net asset value, beginning of period .....	\$50.09	\$46.32
Income (loss) from investment operations:		
Net investment income <sup>®</sup> .....	0.37	0.59
Net gain/(loss) on investment transactions (both realized and unrealized) .....	(5.56) <sup>2</sup>	3.18 <sup>1</sup>
Total from investment operations .....	<u>(5.19)</u>	<u>3.77</u>
Less dividends and distributions to shareholders:		
Dividends from net investment income .....	(0.90)	—
Total dividends and distributions .....	<u>(0.90)</u>	<u>—</u>
Net asset value, end of period .....	<u>\$44.00</u>	<u>\$50.09</u>
Total return <sup>3</sup> .....	(10.62%)	8.16% <sup>4</sup>
<b>Ratios/Supplemental Data:</b>		
Net assets, end of period (in thousands) .....	\$25,547	\$18,553
Ratio of expenses to average net assets		
Before fee waivers/expense offset arrangement/recovery .....	1.38%	1.46% <sup>5</sup>
After fee waivers/expense offset arrangement/recovery <sup>6</sup> .....	1.40% <sup>7</sup>	1.40% <sup>5#</sup>
Ratio of net investment income to average net assets .....	0.75%	1.54% <sup>5</sup>
Portfolio turnover rate .....	6%	2% <sup>4</sup>

<sup>1</sup> Includes redemption fees of \$0.04 per share.

<sup>2</sup> Includes redemption fees of \$0.01 per share.

<sup>3</sup> Performance figures may reflect fee waivers, expense offset arrangement and/or recovery of previously waived fees. Past performance is no guarantee of future results. Total return would have been lower if the Adviser had not waived certain expenses. Conversely, total return would have been higher if the Adviser had not recovered previously waived expenses.

<sup>4</sup> Not annualized.

<sup>5</sup> Annualized.

<sup>6</sup> As a result of an expense limitation, the ratio of expenses (exclusive of taxes, interest, brokerage commissions, acquired fund fees and expenses, and extraordinary items) to average net assets will not exceed 1.40%.

<sup>7</sup> The investment adviser recovered a portion of its previously waived fees.

<sup>#</sup> The investment adviser waived a portion of its fees.

\* Period from December 31, 2009 (Commencement of Operations) to October 31, 2010.

<sup>®</sup> Calculated based on the average number of shares outstanding during the period.

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust  
Third Avenue Value Fund  
Financial Highlights (continued)**

**Selected data (for a share outstanding throughout each year) and ratios are as follows:**

	Years Ended October 31,				
	2011	2010	2009	2008	2007
<b>Institutional Class:</b>					
Net asset value, beginning of year . . . . .	\$50.13	\$44.60	\$35.16	\$68.04	\$60.29
Income (loss) from investment operations:					
Net investment income . . . . .	0.43 <sup>@</sup>	0.71 <sup>@</sup>	0.81 <sup>@</sup>	1.01 <sup>@</sup>	1.52
Net gain/(loss) on investment transactions (both realized and unrealized) <sup>1</sup> . . . . .	(5.51)	5.96	8.81	(31.80)	9.57
Total from investment operations . . . . .	(5.08)	6.67	9.62	(30.79)	11.09
Less dividends and distributions to shareholders:					
Dividends from net investment income . . .	(0.97)	(1.14)	(0.18)	(1.63)	(3.24)
Distributions from realized gains . . . . .	—	—	(0.00) <sup>*</sup>	(0.46)	(0.10)
Total dividends and distributions . . . . .	(0.97)	(1.14)	(0.18)	(2.09)	(3.34)
Net asset value, end of year . . . . .	\$44.08	\$50.13	\$44.60	\$35.16	\$68.04
Total return <sup>2</sup> . . . . .	(10.42%)	15.25%	27.59%	(46.52%)	19.25%
<b>Ratios/Supplemental Data:</b>					
Net assets, end of year (in thousands) . . .	\$3,451,647	\$5,040,109	\$5,688,276	\$5,372,294	\$12,124,948
Ratio of expenses to average net assets					
Before fee waivers/expense offset arrangement/recovery . . . . .	1.13%	1.19%	1.17%	1.11%	1.08%
After fee waivers/expense offset arrangement/recovery <sup>3</sup> . . . . .	1.15% <sup>4</sup>	1.15% <sup>#</sup>	1.17%	1.11%	1.08%
Ratio of net investment income to average net assets . . . . .	0.86%	1.55%	2.23%	1.89%	1.32%
Portfolio turnover rate . . . . .	6%	2%	5%	17%	5%

<sup>1</sup> Includes redemption fees of less than \$0.01 per share.

<sup>2</sup> Performance figures may reflect fee waivers, expense offset arrangement and/or recovery of previously waived fees. Past performance is no guarantee of future results. Total return would have been lower if the Adviser had not waived certain expenses. Conversely, total return would have been higher if the Adviser had not recovered previously waived expenses.

<sup>3</sup> As a result of an expense limitation, the ratio of expenses (exclusive of taxes, interest, brokerage commissions acquired fund fees and expenses, and extraordinary items) to average net assets will not exceed 1.15% effective December 31, 2009.

<sup>4</sup> The investment adviser recovered a portion of its previously waived fees.

<sup>#</sup> The investment adviser waived a portion of its fees.

<sup>@</sup> Calculated based on the average number of shares outstanding during the period.

<sup>\*</sup> Amount is less than \$0.01.

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust**  
**Third Avenue Small-Cap Value Fund**  
**Portfolio Management Discussion – October 31, 2011**  
**(Unaudited)**

At October 31, 2011, the audited net asset value attributable to each of the 369,766 common shares outstanding of the Third Avenue Small-Cap Value Fund Investor Class and 39,143,649 common shares outstanding of Third Avenue Small-Cap Value Fund Institutional Class were \$20.25 and \$20.30 respectively. This compares with audited net asset values at October 31, 2010 of \$19.16 and \$19.17 per share respectively, adjusted for a subsequent distribution to shareholders.

	<b>Average Annual Returns for the periods ended October 31, 2011</b>				
	<b>One Year ended 10/31/11</b>	<b>Three Year</b>	<b>Five Year</b>	<b>Ten Year</b>	<b>Since Inception</b>
Third Avenue Small-Cap Value Fund Investor Class†	5.58%	N/A	N/A	N/A	6.54%
Third Avenue Small-Cap Value Fund Institutional Class^	5.80%	9.57%	(0.78%)	6.66%	7.78%
Russell 2000 Index‡	6.71%	12.87%	0.68%	7.02%	6.80%
Russell 2000 Value Index‡	3.54%	9.52%	(1.42%)	7.63%	8.13%
S&P Small Cap 600 Index‡	10.54%	13.79%	2.12%	8.35%	8.79%

† Investor Class commenced investment operations on December 31, 2009.

^ Institutional Class commenced investment operations on April 1, 1997.

‡ The date used to calculate the Since Inception performance for the index is the inception date of the Institutional Class.

During the year, Third Avenue Small-Cap Value Fund (the “Fund”) benefited from strong stock selection, particularly in the U.S., which accounted for an average 80% weighting in the portfolio, and from its cash management. The Fund entered market downturns with plenty of cash on hand and was able to deploy that cash to purchase oversold securities. The Fund also benefited from mergers and acquisitions that targeted portfolio companies.

Bronco Drilling, the top contributor for the year, was purchased by Chesapeake Energy in a deal announced in June. The Fund’s stake in its second strongest contributor, Japan-based company Parco, was sold to a private acquirer at a premium to its market price at the time. Third Avenue negotiated the terms of that sale.

The third largest performance contributor was Bristow Group, a supplier of helicopter and support services to the offshore oil and gas industry. Bristow’s operating results have been strong and the company has modernized its valuable, versatile and well-placed fleet of helicopters to serve an offshore drilling industry that is moving into ever deeper waters, further from coastlines.

The largest detractor from performance was from the Fund’s relatively small investment in athletic shoemaker K-Swiss. The company has been investing heavily in sales and marketing as it seeks to build and expand its brand beyond tennis and into running. Early efforts, as measured by futures orders were encouraging; however more recent orders data has been mixed. The company has maintained a net cash position, but inventory levels have become too high. Management is reigning in its marketing budget and is focused on returning to profitability in 2012.

**Third Avenue Trust**  
**Third Avenue Small-Cap Value Fund**  
**Portfolio Management Discussion (continued)**  
**(Unaudited)**

THE INFORMATION IN THE PORTFOLIO MANAGEMENT DISCUSSION REPRESENTS A FACTUAL OVERVIEW OF THE FUND'S PERFORMANCE AND IS NOT INTENDED TO BE A FORECAST OF FUTURE EVENTS, A GUARANTEE OF FUTURE RESULTS NOR INVESTMENT ADVICE. VIEWS EXPRESSED ARE THOSE OF THE INVESTMENT TEAM AND MAY DIFFER FROM THOSE OF OTHER INVESTMENT TEAMS OR THE FIRM AS A WHOLE. ALSO, PLEASE NOTE THAT ANY DISCUSSION OF THE PORTFOLIO'S HOLDINGS, THE FUND'S PERFORMANCE, AND THE INVESTMENT TEAM'S VIEWS ARE AS OF OCTOBER 31, 2011, AND ARE SUBJECT TO CHANGE.

Small-cap companies carry additional risks because their share prices may be more volatile, and their securities may be less liquid than larger, more established companies. Such investments may increase the risk of greater price fluctuations. These and other risks are described more fully in the Fund's prospectus.

Third Avenue Small-Cap Value Fund **is offered by prospectus only**. The prospectus contains more complete information on advisory fees, distribution charges, and other expenses and should be read carefully before investing or sending money. Past performance is no guarantee of future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than original cost. The Fund's returns should be viewed in light of its investment policy and objectives and quality of its portfolio securities and the periods selected. M.J. Whitman LLC Distributor.

If you should have any questions, or for updated information (including performance data current to the most recent month-end) or a copy of our prospectus, please call 1-800-443-1021 or go to our web site at [www.thirdave.com](http://www.thirdave.com). Current performance may be lower or higher than performance quoted.

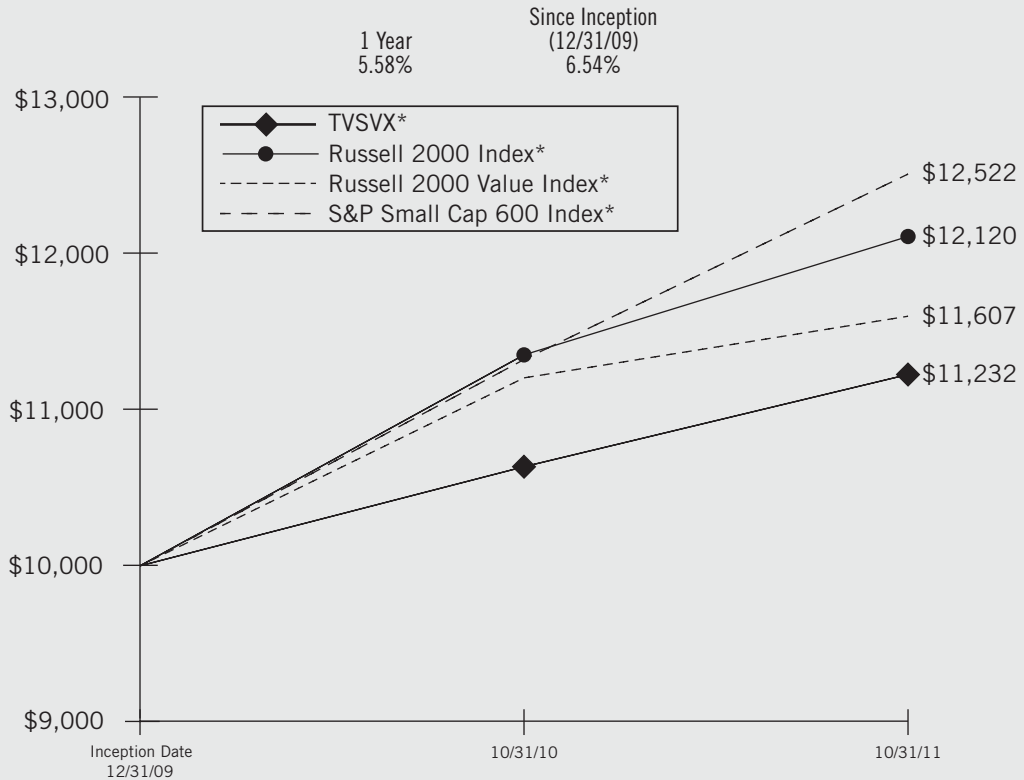
The Russell 2000 Index measures the performance of small companies. The Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. The S&P Small Cap 600 Index is a small cap index that covers approximately 3% of the U.S. equities market and consists of companies that meet specific inclusion criteria to ensure that they are investable and financially viable. The Russell 2000 Index, the Russell 2000 Value Index, and the S&P Small Cap 600 Index are not securities that can be purchased or sold, and their total returns are reflective of unmanaged portfolios. The returns include reinvestment of all distributions.

**Third Avenue Trust  
Third Avenue Small-Cap Value Fund – Investor Class  
Comparison of a \$10,000 Investment  
(Unaudited)**

**Performance Illustration**

COMPARISON OF CHANGE IN VALUE OF A \$10,000 INVESTMENT IN *THIRD AVENUE SMALL-CAP VALUE FUND – INVESTOR CLASS (TVSVX)*,  
THE RUSSELL 2000 INDEX, THE RUSSELL 2000 VALUE INDEX AND THE S&P SMALL CAP 600 INDEX  
FROM INCEPTION OF THE FUND (12/31/09) THROUGH OCTOBER 31, 2011

**Average Annual Total Return**



\* Includes reinvestment of all distributions.

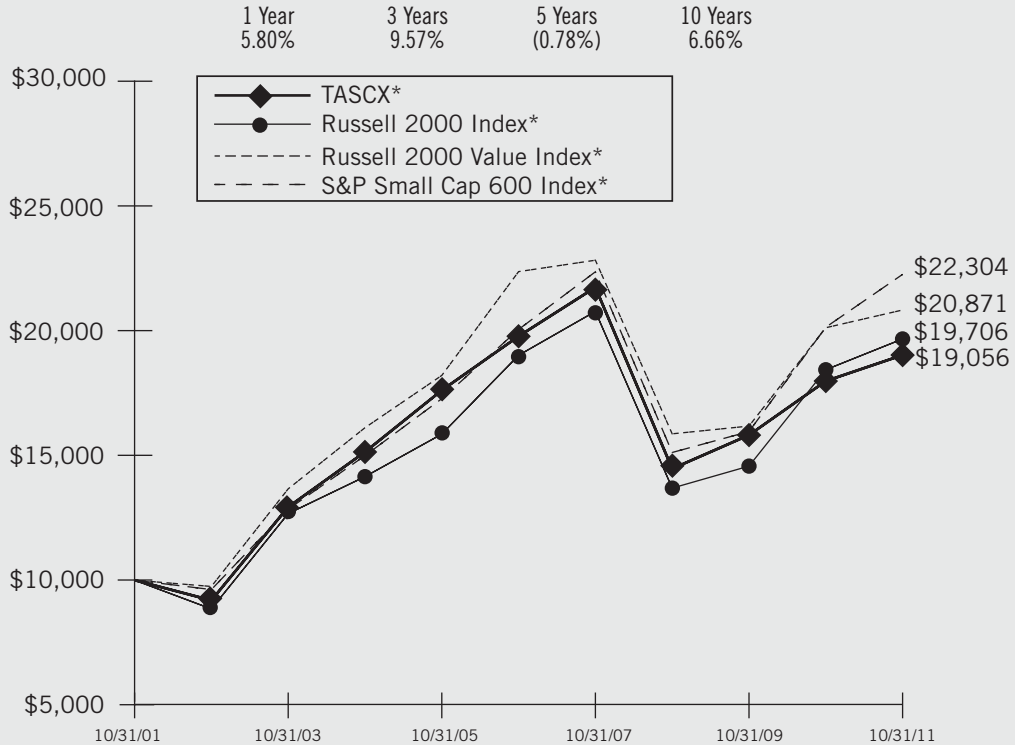
As with all mutual funds, past performance does not indicate future results. Performance may reflect fee waivers, expense offset arrangement and/or recovery. Total return would have been lower if the Adviser had not waived certain expenses. Conversely, total return would have been higher if the Adviser had not recovered previously waived expenses. Also, the returns shown in the graph and table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

**Third Avenue Trust**  
**Third Avenue Small-Cap Value Fund – Institutional Class**  
**Comparison of a \$10,000 Investment**  
**(Unaudited)**

**Performance Illustration**

COMPARISON OF CHANGE IN VALUE OF A \$10,000 INVESTMENT IN *THIRD AVENUE SMALL-CAP VALUE FUND – INSTITUTIONAL CLASS (TASCX)*,  
 THE RUSSELL 2000 INDEX, THE RUSSELL 2000 VALUE INDEX AND THE S&P SMALL CAP 600 INDEX  
 FOR THE TEN YEARS ENDED OCTOBER 31, 2011

**Average Annual Total Return**

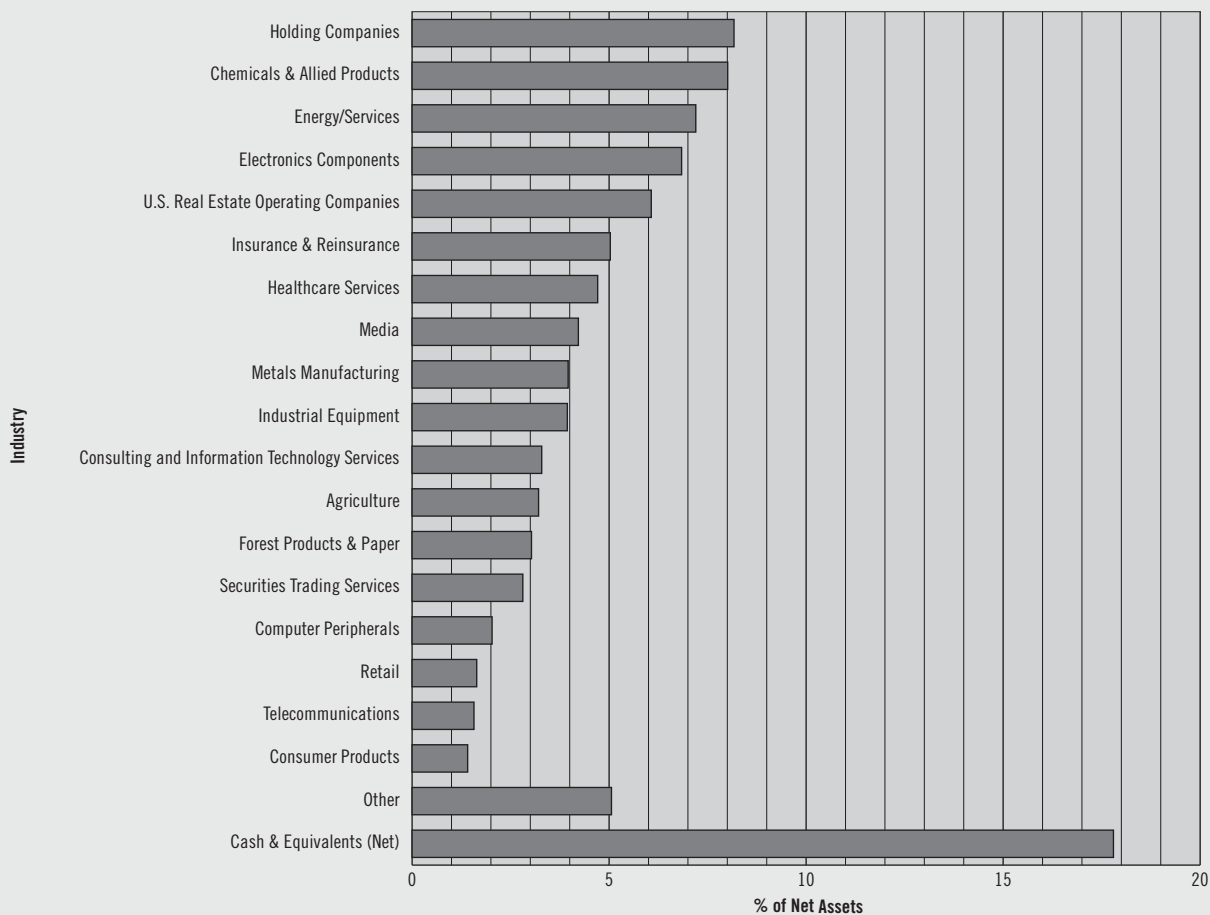


\* Includes reinvestment of all distributions.

As with all mutual funds, past performance does not indicate future results. Performance may reflect fee waivers, expense offset arrangement and/or recovery. Total return would have been lower if the Adviser had not waived certain expenses. Conversely, total return would have been higher if the Adviser had not recovered previously waived expenses. Also, the returns shown in the graph and table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

**Third Avenue Trust  
Third Avenue Small-Cap Value Fund  
Industry Diversification  
(Unaudited)**

The summary of the Fund's investments as of October 31, 2011 is as follows:



*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust**  
**Third Avenue Small-Cap Value Fund**  
**Portfolio of Investments**  
**at October 31, 2011**

Shares		Value (Note 1)	Shares		Value (Note 1)
<b>Common Stocks - 81.06%</b>			<b>Energy/Services - 7.20%</b>		
	<b>Agriculture - 3.21%</b>		295,740	Bristow Group, Inc.	\$ 14,721,937
2,503,737	Viterra, Inc. (Canada)	\$ 25,772,101	661,986	Pioneer Drilling Co. (a)	6,547,042
	<b>Auto Supply - 0.93%</b>		209,149	SEACOR Holdings, Inc.	17,809,037
407,365	Superior Industries International, Inc.	7,450,706	418,437	SemGroup Corp., Class A (a)	11,707,867
	<b>Chemicals &amp; Allied Products - 8.01%</b>		141,456	Tidewater, Inc.	6,963,879
525,851	Lanxess AG (Germany)	30,712,841			<u>57,749,762</u>
187,330	Minerals Technologies, Inc.	10,273,177	544,300	<b>Forest Products &amp; Paper - 3.03%</b>	
162,410	Sensient Technologies Corp.	6,002,674	21,530,352	Canfor Corp. (Canada) (a)	5,504,433
111,896	Stepan Co.	8,648,442		Catalyst Paper Corp. (Canada) (a) (b) (c) (d)	1,375,955
209,484	Westlake Chemical Corp.	8,632,836	1,159,035	P.H. Glatfelter Co.	17,385,525
		<u>64,269,970</u>			<u>24,265,913</u>
	<b>Computer Peripherals - 2.03%</b>		1,762,844	<b>Healthcare Services - 4.71%</b>	
514,542	Lexmark International, Inc., Class A (a)	16,310,981	41,012	Cross Country Healthcare, Inc. (a) (c)	8,814,220
	<b>Consulting and Information Technology Services - 3.29%</b>		369,582	Haemonetics Corp. (a)	2,499,681
427,903	ICF International, Inc. (a)	10,004,372		Pharmaceutical Product Development, Inc.	12,192,510
467,156	ManTech International Corp., Class A	16,411,190	238,212	Teleflex, Inc.	14,259,370
		<u>26,415,562</u>			<u>37,765,781</u>
	<b>Consumer Products - 1.41%</b>		206,135	<b>Holding Companies - 7.03%</b>	
424,062	JAKKS Pacific, Inc.	8,044,456		Ackermans & van Haaren NV (Belgium)	16,606,510
726,681	K-Swiss, Inc., Class A (a)	3,270,064	731,866	JZ Capital Partners, Ltd. (Guernsey)	4,131,392
		<u>11,314,520</u>	1,590,916	JZ Capital Partners, Ltd. Limited Voting Shares (Guernsey) (d)	8,980,739
	<b>Electronics Components - 6.84%</b>		454,492	Leucadia National Corp.	12,194,020
741,242	Bel Fuse, Inc., Class B (c)	13,253,407	475,780,230	PYI Corp., Ltd. (Hong Kong) <sup>1</sup> (c)	14,492,104
126,197	Electronics for Imaging, Inc. (a)	1,892,955			<u>56,404,765</u>
1,134,929	Ingram Micro, Inc., Class A (a)	20,292,531		<b>Industrial Equipment - 3.94%</b>	
957,990	MEMC Electronic Materials, Inc. (a)	5,738,360	133,849	Alamo Group, Inc.	3,192,299
483,475	Park Electrochemical Corp.	13,682,342	777,255	Oshkosh Corp. (a)	16,213,539
		<u>54,859,595</u>	980,316	Wacker Neuson SE (Germany)	12,196,413
					<u>31,602,251</u>

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust**  
**Third Avenue Small-Cap Value Fund**  
**Portfolio of Investments (continued)**  
**at October 31, 2011**

Shares		Value (Note 1)	Shares		Value (Note 1)
<b>Common Stocks (continued)</b>			<b>Securities Trading Services - 2.81%</b>		
	<b>Industrial Services - 1.37%</b>		596,785	Broadridge Financial Solutions, Inc.	\$ 13,278,466
167,648	EMCOR Group, Inc.	\$ 4,202,935	811,255	Investment Technology Group, Inc. (a)	9,256,420
129,059	UniFirst Corp.	6,756,239			<u>22,534,886</u>
		<u>10,959,174</u>		<b>Semiconductor Equipment</b>	
	<b>Insurance &amp; Reinsurance - 5.03%</b>			<b>Manufacturers &amp; Related - 0.46%</b>	
561,986	Arch Capital Group, Ltd.		298,327	Electro Scientific Industries, Inc. (a)	3,666,439
	(Bermuda) (a)	20,214,636		<b>Software - 0.15%</b>	
9,824	E-L Financial Corp., Ltd. (Canada)	3,843,853	45,720	Synopsys, Inc. (a)	1,225,753
610,542	HCC Insurance Holdings, Inc.	16,246,523		<b>Telecommunications - 1.57%</b>	
		<u>40,305,012</u>	144,867	Sycamore Networks, Inc.	2,784,344
	<b>Life Insurance - 0.46%</b>		2,260,907	Tellabs, Inc.	9,789,727
25,465	National Western Life Insurance Co., Class A	3,661,103			<u>12,574,071</u>
	<b>Media - 4.22%</b>			<b>U.S. Real Estate Investment</b>	
230,786	Liberty Media Corp. - Liberty Starz Series A (a)	15,762,684	207,876	<b>Trusts - 0.27%</b>	
685,563	Madison Square Garden, Co. (The), Class A (a)	18,119,430		Excel Trust, Inc.	2,184,777
		<u>33,882,114</u>	463,727	<b>U.S. Real Estate Operating</b>	
	<b>Metals Manufacturing - 3.96%</b>		256,488	<b>Companies - 6.07%</b>	
307,252	Encore Wire Corp.	8,166,758	514,448	Alexander & Baldwin, Inc.	19,249,308
507,286	Kaiser Aluminum Corp.	23,568,508		Alico, Inc.	5,840,232
		<u>31,735,266</u>		Tejon Ranch Co. (a)	671,140
	<b>Non-U.S. Real Estate Investment</b>			Vail Resorts, Inc.	22,923,803
	<b>Trusts - 0.95%</b>				<u>48,684,483</u>
1,943,100	SEGRO PLC (United Kingdom)	7,598,251		<b>Total Common Stocks</b>	
	<b>Oil &amp; Gas - 0.47%</b>			(Cost \$632,989,004)	<u>650,082,075</u>
58,331	Cimarex Energy Co.	3,733,184		<b>Investment</b>	
	<b>Retail - 1.64%</b>			<b>Amount (\$)</b>	
289,800	Aéropostale, Inc. (a)	3,958,668		<b>Limited Partnerships - 1.14%</b>	
700,456	American Eagle Outfitters, Inc.	9,196,987		<b>Holding Companies - 1.14%</b>	
		<u>13,155,655</u>		1,000,000 AP Alternative Assets, L.P.	
				(Guernsey) (b) (d)	9,167,500
				<b>Total Limited Partnerships</b>	
				(Cost \$20,000,000)	<u>9,167,500</u>

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust**  
**Third Avenue Small-Cap Value Fund**  
**Portfolio of Investments (continued)**  
**at October 31, 2011**

Notional Amount †	Value (Note 1)	Principal Amount (\$)	Value (Note 1)
<b>Purchased Options - 0.11%</b>			<b>Total Investment</b>
	<b>Foreign Currency Put Options - 0.11% (a)</b>		<b>Portfolio - 96.03%</b>
75,000,000	Euro Currency, strike 1.20 Euro, expires 3/7/12	\$ 447,893	(Cost \$767,899,433) \$770,165,576
50,000,000	Japan Currency, strike 100 Yen, expires 10/24/13	<u>418,750</u>	<b>Other Assets less</b>
	<b>Total Purchased Options</b> (Cost \$3,687,500)	<u>866,643</u>	<b>Liabilities - 3.97%</b> <u>31,818,913</u>
<b>Purchased Swaptions - 0.01%</b>			<b>NET ASSETS - 100.00%</b> <u>\$801,984,489</u>
	<b>Foreign Currency Put Swaptions - 0.01% (a)</b>		
	Payer Options Purchased on Interest Rate Swaps:		
47,627,920,000 <sup>JPY</sup>	Expiring 11/8/11, if exercised the Fund pays semi-annually 3.220% and receives semi-annual floating 6 month JPY LIBOR terminating 11/8/21, European Style. Counterparty: JPMorgan Chase Bank, N.A.	0	
26,304,564,000 <sup>JPY</sup>	Expiring 11/7/12, if exercised the Fund pays semi-annually 4.420% and receives semi-annual floating 6 month JPY LIBOR terminating 11/7/22, European Style. Counterparty: JPMorgan Chase Bank, N.A.	<u>67,730</u>	
	<b>Total Purchased Swaptions</b> (Cost \$1,242,500)	<u>67,730</u>	
<b>Short Term Investments - 13.71%</b>			
	<b>U.S. Government Obligations - 13.71%</b>		
110,000,000	U.S. Treasury Bills, 0.06%-0.11%‡, due 12/15/11-4/26/12	<u>109,981,628</u>	
	<b>Total Short Term Investments</b> (Cost \$109,980,429)	<u>109,981,628</u>	

Notes:  
 JPY: Japanese Yen  
 LIBOR: London Interbank Offered Rate  
 (a) Non-income producing security.  
 (b) Fair-valued security.  
 (c) Affiliated issuers - as defined under the Investment Company Act of 1940 (ownership of 5% or more of the outstanding voting securities of these issuers).  
 (d) Restricted security subject to restrictions on resale.

Acquisition Shares/ Investment Amount	Issuer	Acquisition Date	Acquisition Cost	10/31/11 Carrying Value Per Unit
1,000,000	AP Alternative Assets, L.P.	6/8/06	\$20,000,000	\$9.17
21,530,352	Catalyst Paper Corp.	10/23/06-4/7/08	42,768,308	0.06
1,590,916	JZ Capital Partners, Ltd. Limited Voting Shares	6/16/09-6/19/09	5,409,402	5.65

At October 31, 2011, these restricted securities had a total market value of \$19,524,194 or 2.43% of net assets of the Fund.

† Notional amount denominated in U.S. Dollars, unless otherwise noted.  
 ‡ Annualized yield at date of purchase.  
 1 Incorporated in Bermuda.

Country Concentration

	% of Net Assets
United States*	76.00%
Germany	5.35
Canada	4.55
Guernsey	2.78
Bermuda	2.52
Belgium	2.07
Hong Kong	1.81
United Kingdom	0.95
Total	<u>96.03%</u>

\* Includes cash equivalents.

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust**  
**Third Avenue Small-Cap Value Fund**  
**Statement of Assets and Liabilities**  
**October 31, 2011**

**Assets:**

Investments at value (Notes 1 and 5):	
Unaffiliated issuers (cost of \$663,641,692) .....	\$732,229,890
Affiliated issuers (cost of \$104,257,741) .....	37,935,686
Total investments (cost of \$767,899,433) .....	<u>770,165,576</u>
Cash .....	23,137,627
Foreign currency at value (cost of \$72,445) .....	74,508
Receivable for securities sold .....	12,980,421
Dividends and interest receivable .....	714,699
Receivable for fund shares sold .....	382,581
Other assets .....	43,998
Total assets .....	<u>\$807,499,410</u>

**Liabilities:**

Payable for securities purchased .....	3,454,307
Payable for fund shares redeemed .....	961,236
Payable to investment adviser (Note 3) .....	628,059
Accrued expenses .....	260,808
Payable for shareholder servicing fees (Note 3) .....	184,037
Distribution fees payable (Note 6) .....	18,899
Payable to trustees and officers .....	7,575
Total liabilities .....	<u>5,514,921</u>
Net assets .....	<u>\$801,984,489</u>

**Summary of net assets:**

Capital stock, \$0.001 par value .....	\$799,971,575
Accumulated distributions in excess of net investment income .....	(4,187,276)
Accumulated net realized gains on investments and foreign currency transactions .....	3,915,513
Net unrealized appreciation of investments and translation of foreign currency denominated assets and liabilities .....	<u>2,284,677</u>
Net assets applicable to capital shares outstanding .....	<u>\$801,984,489</u>

**Investor Class:**

Net assets applicable to 369,766 shares outstanding, unlimited number of shares authorized .....	<u>\$ 7,489,608</u>
Net asset value, offering and redemption price per share .....	<u>\$20.25</u>

**Institutional Class:**

Net assets applicable to 39,143,649 shares outstanding, unlimited number of shares authorized .....	<u>\$794,494,881</u>
Net asset value, offering and redemption price per share .....	<u>\$20.30</u>

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust**  
**Third Avenue Small-Cap Value Fund**  
**Statement of Operations**  
**For the Year Ended October 31, 2011**

**Investment Income:**

Interest .....	\$ 1,686,125
Dividends - unaffiliated issuers (net of foreign withholding tax of \$355,420) .....	9,220,595
Dividends - affiliated issuers (Note 5) .....	2,037,554
Other income .....	4,197
Total investment income .....	<u>12,948,471</u>

**Expenses:**

Investment advisory fees (Note 3) .....	8,955,637
Shareholder servicing fees (Note 3) .....	1,427,617
Transfer agent fees .....	304,487
Reports to shareholders .....	140,731
Accounting fees .....	118,619
Trustees' and officers' fees and expenses .....	96,563
Auditing fees .....	78,124
Custodian fees .....	55,626
Administration fees (Note 3) .....	51,648
Legal fees .....	37,324
Registration and filing fees .....	36,180
Insurance expenses .....	27,832
Distribution fees (Note 6) .....	16,313
Miscellaneous expenses .....	30,222
Total expenses .....	11,376,923
Recovery of expenses previously waived (Note 3) .....	115,336
Expenses reduced by custodian fee expense offset arrangement (Note 3) .....	(32,631)
Net expenses .....	<u>11,459,628</u>
Net investment income .....	<u>1,488,843</u>

**Realized and unrealized gain/(loss) on investments and foreign currency transactions:**

Net realized gain on investments - unaffiliated issuers .....	71,449,324
Net realized loss on investments - affiliated issuers .....	(12,504,239)
Net realized gain on written options .....	110,141
Net realized gain on foreign currency transactions .....	492,541
Net change in unrealized appreciation/(depreciation) on investments and unfunded commitments .....	6,748,687
Net change in unrealized appreciation/(depreciation) on translation of other assets and liabilities denominated in foreign currency .....	(20,068)
Net gain on investments and foreign currency transactions .....	<u>66,276,386</u>
<b>Net increase in net assets resulting from operations .....</b>	<b><u>\$ 67,765,229</u></b>

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust  
Third Avenue Small-Cap Value Fund  
Statement of Changes in Net Assets**

	<b>For the Year Ended October 31, 2011</b>	<b>For the Year Ended October 31, 2010</b>
<b>Operations:</b>		
Net investment income .....	\$ 1,488,843	\$ 7,517,974
Net realized gain on investments - unaffiliated issuers .....	71,449,324	43,561,633
Net realized loss on investments - affiliated issuers .....	(12,504,239)	(7,803,212)
Net realized gain on written options .....	110,141	196,879
Net realized gain/(loss) on foreign currency transactions .....	492,541	(129,964)
Net change in unrealized appreciation/(depreciation) on investments and unfunded commitments .....	6,748,687	103,045,809
Net change in unrealized appreciation/(depreciation) on translation of other assets and liabilities denominated in foreign currency .....	(20,068)	19,195
Net increase in net assets resulting from operations .....	<u>67,765,229</u>	<u>146,408,314</u>
<b>Dividends and Distributions to Shareholders from:</b>		
Net investment income:		
Investor Class .....	(48,442)	—
Institutional Class .....	(10,950,536)	(9,502,988)
Decrease in net assets from dividends and distributions .....	<u>(10,998,978)</u>	<u>(9,502,988)</u>
<b>Capital Share Transactions:</b>		
Proceeds from sale of shares .....	68,970,537	102,684,419
Net asset value of shares issued in reinvestment of dividends and distributions .....	10,514,067	9,086,737
Redemption fees .....	15,504	26,097
Cost of shares redeemed .....	(388,960,587)	(411,850,491)
Net decrease in net assets resulting from capital share transactions .....	<u>(309,460,479)</u>	<u>(300,053,238)</u>
Net decrease in net assets .....	(252,694,228)	(163,147,912)
Net assets at beginning of year .....	<u>1,054,678,717</u>	<u>1,217,826,629</u>
Net assets at end of year (including accumulated distributions in excess of net investment income and accumulated undistributed net investment income of \$(4,187,276) and \$2,661,027, respectively) .....	<u>\$ 801,984,489</u>	<u>\$1,054,678,717</u>

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust  
Third Avenue Small-Cap Value Fund  
Financial Highlights**

Selected data (for a share outstanding throughout each period) and ratios are as follows:

	<u>For the Year Ended October 31, 2011</u>	<u>For the Period Ended October 31, 2010*</u>
<b>Investor Class:</b>		
Net asset value, beginning of period .....	\$19.35	\$18.19
Income (loss) from investment operations:		
Net investment income (loss) <sup>®</sup> .....	(0.01)	0.02
Net gain on investment transactions (both realized and unrealized) .....	<u>1.10<sup>1</sup></u>	<u>1.14<sup>2</sup></u>
Total from investment operations .....	<u>1.09</u>	<u>1.16</u>
Less dividends and distributions to shareholders:		
Dividends from net investment income .....	<u>(0.19)</u>	<u>—</u>
Total dividends and distributions .....	<u>(0.19)</u>	<u>—</u>
Net asset value, end of period .....	<u>\$20.25</u>	<u>\$19.35</u>
Total return <sup>3</sup> .....	5.58%	6.38% <sup>4</sup>
<b>Ratios/Supplemental Data:</b>		
Net assets, end of period (in thousands) .....	\$7,490	\$4,505
Ratio of expenses to average net assets		
Before fee waivers/expense offset arrangement/recovery .....	1.39%	1.42% <sup>5</sup>
After fee waivers/expense offset arrangement/recovery <sup>6</sup> .....	1.40% <sup>7</sup>	1.40% <sup>5#</sup>
Ratio of net investment income (loss) to average net assets .....	(0.07%)	0.10% <sup>5</sup>
Portfolio turnover rate .....	34%	9% <sup>4</sup>

<sup>1</sup> Includes redemption fees of \$0.02 per share.

<sup>2</sup> Includes redemption fees of less than \$0.01 per share.

<sup>3</sup> Performance figures may reflect fee waivers, expense offset arrangement and/or recovery of previously waived fees. Past performance is no guarantee of future results. Total return would have been lower if the Adviser had not waived certain expenses. Conversely, total return would have been higher if the Adviser had not recovered previously waived expenses.

<sup>4</sup> Not annualized.

<sup>5</sup> Annualized.

<sup>6</sup> As a result of an expense limitation, the ratio of expenses (exclusive of taxes, interest, brokerage commissions, acquired fund fees and expenses, and extraordinary items) to average net assets will not exceed 1.40%.

<sup>7</sup> The investment adviser recovered a portion of its previously waived fees.

<sup>#</sup> The investment adviser waived a portion of its fees.

\* Period from December 31, 2009 (Commencement of Operations) to October 31, 2010.

® Calculated based on the average number of shares outstanding during the period.

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust**  
**Third Avenue Small-Cap Value Fund**  
**Financial Highlights (continued)**

Selected data (for a share outstanding throughout each year) and ratios are as follows:

	Years Ended October 31,				
	2011	2010	2009	2008	2007
<b>Institutional Class:</b>					
Net asset value, beginning of year . . . . .	\$19.38	\$17.17	\$16.45	\$27.66	\$26.54
Income (loss) from investment operations:					
Net investment income . . . . .	0.03 <sup>®</sup>	0.12 <sup>®</sup>	0.19 <sup>®</sup>	0.09 <sup>®</sup>	0.27
Net gain/(loss) on investment transactions (both realized and unrealized) <sup>1</sup> . . . . .	1.10	2.23	1.18	(8.58)	2.27
Total from investment operations . . . . .	1.13	2.35	1.37	(8.49)	2.54
Less dividends and distributions to shareholders:					
Dividends from net investment income . . . .	(0.21)	(0.14)	(0.12)	(0.23)	(0.43)
Distributions from realized gains . . . . .	—	—	(0.53)	(2.49)	(0.99)
Total dividends and distributions . . . . .	(0.21)	(0.14)	(0.65)	(2.72)	(1.42)
Net asset value, end of year . . . . .	<u>\$20.30</u>	<u>\$19.38</u>	<u>\$17.17</u>	<u>\$16.45</u>	<u>\$27.66</u>
Total return <sup>2</sup> . . . . .	5.80%	13.73%	9.34%	(33.50%)	9.93%
<b>Ratios/Supplemental Data:</b>					
Net assets, end of year (in thousands) . . . .	\$794,495	\$1,050,173	\$1,217,827	\$1,372,740	\$2,245,342
Ratio of expenses to average net assets					
Before fee waivers/expense offset arrangement/recovery . . . . .	1.14%	1.16%	1.13%	1.10%	1.09%
After fee waivers/expense offset arrangement/recovery <sup>3</sup> . . . . .	1.15% <sup>4</sup>	1.14% <sup>#</sup>	1.13%	1.10%	1.09%
Ratio of net investment income to average net assets . . . . .	0.15%	0.65%	1.29%	0.40%	0.95%
Portfolio turnover rate . . . . .	34%	9%	15%	46%	27%

<sup>1</sup> Includes redemption fees of less than \$0.01 per share.

<sup>2</sup> Performance figures may reflect fee waivers, expense offset arrangement and/or recovery of previously waived fees. Past performance is no guarantee of future results. Total return would have been lower if the Adviser had not waived certain expenses. Conversely, total return would have been higher if the Adviser had not recovered previously waived expenses.

<sup>3</sup> As a result of an expense limitation, the ratio of expenses (exclusive of taxes, interest, brokerage commissions, acquired fund fees and expenses, and extraordinary items) to average net assets will not exceed 1.15% effective December 31, 2009.

<sup>4</sup> The investment adviser recovered a portion of its previously waived fees.

<sup>#</sup> The investment adviser waived a portion of its fees.

<sup>®</sup> Calculated based on the average number of shares outstanding during the period.

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust**  
**Third Avenue Real Estate Value Fund**  
**Portfolio Management Discussion – October 31, 2011**  
**(Unaudited)**

At October 31, 2011, the audited net asset value attributable to each of the 2,258,202 common shares outstanding of the Third Avenue Real Estate Value Fund Investor Class and 73,606,430 common shares outstanding of Third Avenue Real Estate Value Fund Institutional Class were \$21.40 and \$21.45 respectively. This compares with audited net asset values at October 31, 2010 of \$22.01 and \$22.01 per share respectively, adjusted for a subsequent distribution to shareholders.

	Average Annual Returns for the periods ended October 31, 2011				
	One Year ended 10/31/11	Three Year	Five Year	Ten Year	Since Inception
Third Avenue Real Estate Value Fund Investor Class†	(2.89%)	N/A	N/A	N/A	4.62%
Third Avenue Real Estate Value Fund Institutional Class^	(2.66%)	12.82%	(4.22%)	8.45%	10.40%
FTSE EPRA/NAREIT Developed Index‡	0.67%	15.53%	(2.90%)	10.88%	10.30%

† Investor Class commenced investment operations on December 31, 2009.

^ Institutional Class commenced investment operations on September 17, 1998.

‡ The date used to calculate the Since Inception performance for the index is the inception date of the Institutional Class.

Chief among our performance detractors of Third Avenue Real Estate Value Fund (the “Fund”) were our investments in Hong Kong-based real estate and investment companies, including Henderson Land Development, Wheelock & Co. and Cheung Kong Holdings. In total, our Hong Kong-based investments delivered strong operating results that were not reflected in stock prices. The short-term issue that seems to be driving stock prices is investor uncertainty about the ultimate outcome of the Chinese Government’s attempts to cool the residential real estate market. Our companies tend to be more exposed to commercial real estate, particularly in the high demand and low supply areas of Hong Kong, and also often have interests in other businesses such as Henderson Land’s 40% stake in Hong Kong & China Gas, a publicly traded natural gas distributor, Cheung Kong’s 49.97% interest in Hutchison Whampoa Limited, a diversified conglomerate with varied investments in Europe and Asia, and Wheelock & Co.’s investments in ports and other private-equity businesses.

The top performance contributor was ProLogis European Properties (“PEPR”), a company that we sold during the year as the result of a takeover. When Europe’s sovereign debt issues emerged in early 2010 we took advantage of the dislocation in stock prices and purchased shares in three European-listed securities, one of which was PEPR, a Luxembourg-listed closed end fund managed by ProLogis, a US REIT and a former Third Avenue holding. At the time of our purchase, PEPR had recently undergone a restructuring in order to strengthen its balance sheet, which included the suspension of its dividend. We believed the company would use its substantial recurring cash flows to improve its financial position to the point where it could eventually reinstate the dividend thus re-rating the share price, or else eventually find itself the subject of a takeover bid from ProLogis. Ultimately, ProLogis offered to purchase all shares it didn’t already own at €6.20, in response to an earlier offer from Goodman Group and another large shareholder. We felt that the tender offer from ProLogis valued the company fairly, leading us to tender our entire position.

**Third Avenue Trust**  
**Third Avenue Real Estate Value Fund**  
**Portfolio Management Discussion (continued)**  
**(Unaudited)**

THE INFORMATION IN THE PORTFOLIO MANAGEMENT DISCUSSION REPRESENTS A FACTUAL OVERVIEW OF THE FUND'S PERFORMANCE AND IS NOT INTENDED TO BE A FORECAST OF FUTURE EVENTS, A GUARANTEE OF FUTURE RESULTS NOR INVESTMENT ADVICE. VIEWS EXPRESSED ARE THOSE OF THE INVESTMENT TEAM AND MAY DIFFER FROM THOSE OF OTHER INVESTMENT TEAMS OR THE FIRM AS A WHOLE. ALSO, PLEASE NOTE THAT ANY DISCUSSION OF THE PORTFOLIO'S HOLDINGS, THE FUND'S PERFORMANCE, AND THE INVESTMENT TEAM'S VIEWS ARE AS OF OCTOBER 31, 2011, AND ARE SUBJECT TO CHANGE.

Real estate investments may be subject to special risks, including risks related to general and local economic conditions, and changes in real estate values that may have negative effects on issuers related to the real estate industry. The Fund's investments in small and medium capitalization stocks may experience more volatility than larger capitalization stocks. These and other risks are described more fully in the Fund's prospectus.

Third Avenue Real Estate Value Fund **is offered by prospectus only.** The prospectus contains more complete information on advisory fees, distribution charges, and other expenses and should be read carefully before investing or sending money. Past performance is no guarantee of future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than original cost. The Fund's returns should be viewed in light of its investment policy and objectives and quality of its portfolio securities and the periods selected. M.J. Whitman LLC Distributor.

If you should have any questions, or for updated information (including performance data current to the most recent month-end) or a copy of our prospectus, please call 1-800-443-1021 or go to our web site at [www.thirdave.com](http://www.thirdave.com). Current performance may be lower or higher than performance quoted.

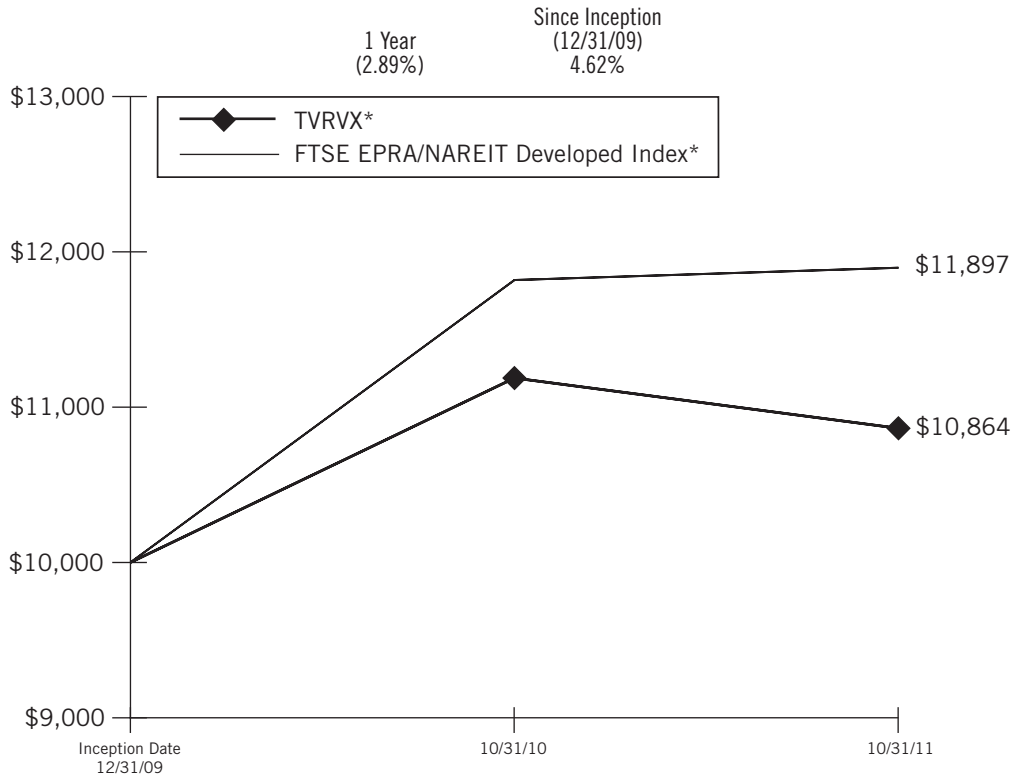
The FTSE EPRA/NAREIT Developed Index is designed to reflect the stock performance of companies engaged in specific aspects of the North American, European and Asian Real Estate markets. The FTSE EPRA/NAREIT Developed Index is not a security that can be purchased or sold, and its total returns are reflective of unmanaged portfolios. The returns include reinvestment of all distributions.

**Third Avenue Trust  
Third Avenue Real Estate Value Fund – Investor Class  
Comparison of a \$10,000 Investment  
(Unaudited)**

**Performance Illustration**

COMPARISON OF CHANGE IN VALUE OF A \$10,000 INVESTMENT IN *THIRD AVENUE REAL ESTATE VALUE FUND – INVESTOR CLASS (TVRVX)*  
AND THE FTSE EPRA/NAREIT DEVELOPED INDEX  
FROM INCEPTION OF THE FUND (12/31/09) THROUGH OCTOBER 31, 2011

**Average Annual Total Return**



\* Includes reinvestment of all distributions.

As with all mutual funds, past performance does not indicate future results. Performance may reflect fee waivers, expense offset arrangement and/or recovery. Total return would have been lower if the Adviser had not waived certain expenses. Conversely, total return would have been higher if the Adviser had not recovered previously waived expenses. Also, the returns shown in the graph and table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

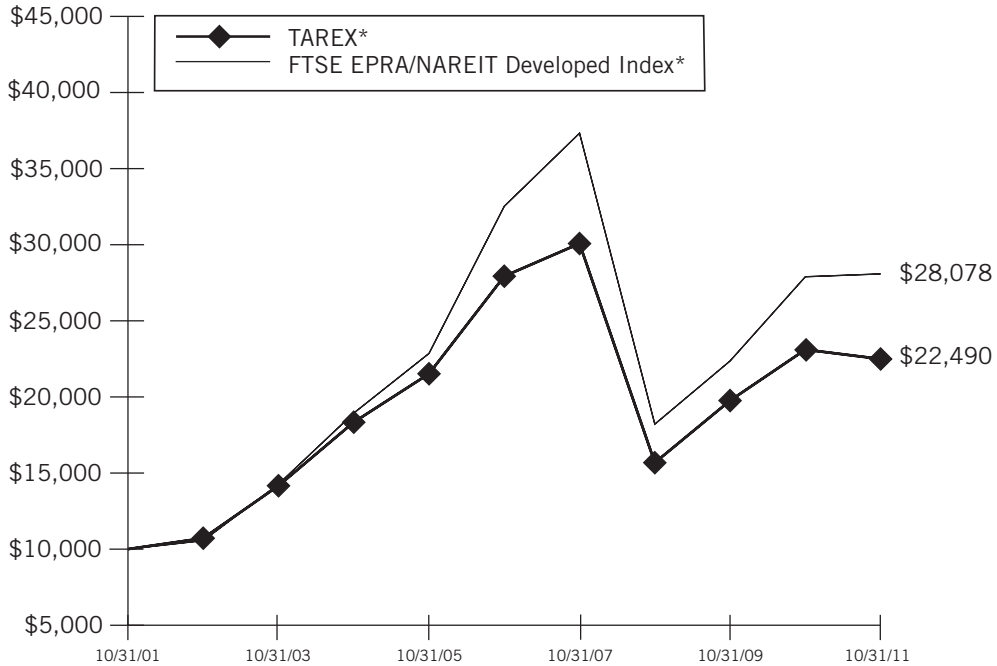
**Third Avenue Trust**  
**Third Avenue Real Estate Value Fund – Institutional Class**  
**Comparison of a \$10,000 Investment**  
**(Unaudited)**

**Performance Illustration**

COMPARISON OF CHANGE IN VALUE OF A \$10,000 INVESTMENT IN *THIRD AVENUE REAL ESTATE VALUE FUND – INSTITUTIONAL CLASS (TAREX)*  
 AND THE FTSE EPRA/NAREIT DEVELOPED INDEX  
 FOR THE TEN YEARS ENDED OCTOBER 31, 2011

**Average Annual Total Return**

1 Year (2.66%)	3 Years 12.82%	5 Years (4.22%)	10 Years 8.45%
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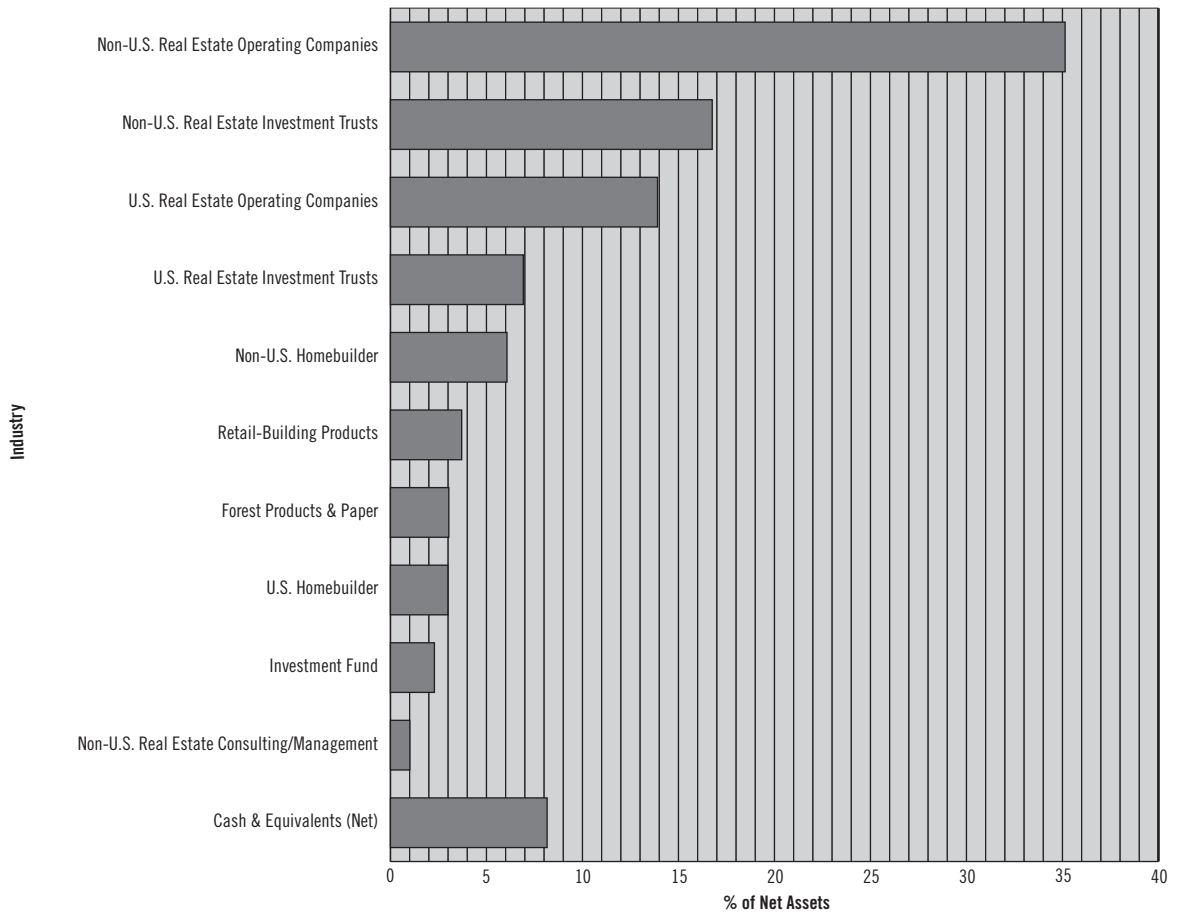


\* Includes reinvestment of all distributions.

As with all mutual funds, past performance does not indicate future results. Performance may reflect fee waivers, expense offset arrangement and/or recovery. Total return would have been lower if the Adviser had not waived certain expenses. Conversely, total return would have been higher if the Adviser had not recovered previously waived expenses. Also, the returns shown in the graph and table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

**Third Avenue Trust  
Third Avenue Real Estate Value Fund  
Industry Diversification  
(Unaudited)**

The summary of the Fund's investments as of October 31, 2011 is as follows:



*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust**  
**Third Avenue Real Estate Value Fund**  
**Portfolio of Investments**  
**at October 31, 2011**

Principal Amount (\$)	Value (Note 1)	Shares or Units	Value (Note 1)
<b>Corporate Debt Instruments - 0.60%</b>			<b>Non-U.S. Real Estate Operating Companies - 35.14%</b>
	<b>U.S. Homebuilder - 0.60%</b>		
11,320,000	K. Hovnanian Enterprises, Inc., 10.625%, due 10/15/16 \$ 9,763,500	2,746,126	Brookfield Asset Management, Inc., Class A (Canada) \$ 79,637,654
	<b>Total Corporate Debt Instruments</b> (Cost \$10,311,299) 9,763,500	20,128,500	Capitaland, Ltd. (Singapore) 43,365,769
		5,727,000	Cheung Kong Holdings, Ltd. (Hong Kong) 70,991,496
<b>Shares or Units</b>		2,169,000	City Developments Ltd. (Singapore) 18,704,695
		3,362,300	Daibiru Corp. (Japan) 22,712,966
<b>Common Stocks - 88.95%</b>		8,377,000	Hang Lung Properties Ltd. (Hong Kong) 30,507,493
	<b>Forest Products &amp; Paper - 3.04%</b>		
2,751,058	Weyerhaeuser Co. 49,464,023	8,570,637	Henderson Land Development Co., Ltd. (Hong Kong) 46,847,351
	<b>Non-U.S. Homebuilder - 6.07%</b>		
2,942,716	Bellway PLC (United Kingdom) 33,484,950	2,940,095	Hongkong Land Holdings, Ltd. (Hong Kong) <sup>1</sup> 15,450,308
835,193	Berkeley Group (Holdings) PLC (United Kingdom) (a) 16,747,933	11,373,967	Hysan Development Co., Ltd. (Hong Kong) 39,690,322
81,911,973	Taylor Wimpey PLC (United Kingdom) (a) 48,481,409	888,000	Mitsubishi Estate Co., Ltd. (Japan) 15,040,091
	98,714,292	923,000	Mitsui Fudosan Co., Ltd. (Japan) 15,349,754
		21,869,072	Quintain Estates & Development PLC (United Kingdom) (a) 13,098,306
	<b>Non-U.S. Real Estate Consulting/Management - 1.01%</b>		
3,309,535	Savills PLC (United Kingdom) 16,486,639	22,721,694	Songbird Estates PLC (United Kingdom) (a) 43,262,116
	<b>Non-U.S. Real Estate Investment Trusts - 16.76%</b>		
29,880,091	Commonwealth Property Office Fund (Australia) 29,147,331	4,692,100	Sun Hung Kai Properties, Ltd. (Hong Kong) 64,604,486
670,168	Derwent London PLC (United Kingdom) 18,241,528	17,902,500	Wheelock & Co., Ltd. (Hong Kong) 52,599,081
41,415,719	Dexus Property Group (Australia) 36,841,675		571,861,888
12,457,812	Hammerson PLC (United Kingdom) 81,388,114	2,874,000	<b>Retail-Building Products - 3.71%</b>
24,713,436	Mirvac Group (Australia) 32,361,841		Lowe's Cos., Inc. 60,411,480
8,339,052	SEGRO PLC (United Kingdom) 32,608,827	2,349,293	<b>U.S. Homebuilder - 2.39%</b>
5,240,298	Westfield Group (Australia) 42,186,261		Lennar Corp., Class A 38,857,306
	272,775,577		<b>U.S. Real Estate Investment Trusts - 6.92%</b>
		3,511,772	First Industrial Realty Trust, Inc. (a) 34,590,954
		1,686,371	General Growth Properties, Inc. 24,789,654
		641,794	Vornado Realty Trust 53,146,961
			112,527,569

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust**  
**Third Avenue Real Estate Value Fund**  
**Portfolio of Investments (continued)**  
**at October 31, 2011**

Shares or Units	Value (Note 1)	Principal Amount (\$)	Value (Note 1)
<b>Common Stocks (continued)</b>		<b>Short Term Investments - 3.07%</b>	
	<b>U.S. Real Estate Operating Companies - 13.91%</b>		<b>U.S. Government Obligations - 3.07%</b>
500,500	Consolidated-Tomoka Land Co. (c) \$ 14,989,975	50,000,000	U.S. Treasury Bill, 0.01% <sup>†</sup> , due 11/25/11 (d) <u>\$ 49,999,517</u>
6,490,864	FNC Realty Corp. (a) (b) 4,543,605		<b>Total Short Term Investments</b> (Cost \$49,999,517) <u>49,999,517</u>
8,846,798	Forest City Enterprises, Inc., Class A (a) (c) 121,024,197		<b>Total Investment Portfolio - 95.93%</b> (Cost \$1,556,195,498) 1,561,284,801
29,513,141	Newhall Holding Co. LLC, Class A Units (a) (c) 42,794,054		<b>Other Assets less Liabilities - 4.07% (e)</b> <u>66,162,831</u>
941,627	Tejon Ranch Co. (a) 24,472,886		<b>NET ASSETS - 100.00%</b> <u><u>\$1,627,447,632</u></u>
7,354,979	Thomas Properties Group, Inc. (a) (c) 18,608,097		
	<u>226,432,814</u>		
	<b>Total Common Stocks</b> (Cost \$1,450,698,152) <u>1,447,531,588</u>		
<b>Investment Amount (\$)</b>			
<b>Limited Partnerships - 2.29%</b>		<b>Notes:</b>	
	<b>Investment Fund - 2.29%</b>	HKD: Hong Kong Dollar	
36,000,000	Alliance Bernstein Legacy Securities (C1) L.P. <sup>2</sup> (b) (c) <u>37,324,299</u>	(a) Non-income producing security.	
	<b>Total Limited Partnerships</b> (Cost \$36,000,000) <u>37,324,299</u>	(b) Fair-valued security.	
		(c) Affiliated issuers - as defined under the Investment Company Act of 1940 (ownership of 5% or more of the outstanding voting securities of these issuers).	
		(d) A portion of this security is segregated for future fund commitments.	
		(e) Includes \$8,350,000 of cash restricted as collateral for forward foreign currency contracts to broker.	
		<sup>†</sup> Annualized yield at date of purchase.	
		<sup>1</sup> Incorporated in Bermuda.	
		<sup>2</sup> Cayman Islands exempted limited partnership.	
<b>Number of Contracts</b>		<b>Country Concentration</b>	
<b>Purchased Options - 1.02%</b>			% of
	<b>Index Call Options - 1.02% (a)</b>		<u>Net Assets</u>
18,721	Hang Seng Property Index, strike 22,946.77 HKD, expires 1/30/13 9,271,081	United States*	35.93%
17,800	Hang Seng Property Index, strike 24,025.65 HKD, expires 1/30/13 7,394,816	Hong Kong	20.73
	<b>Total Purchased Options</b> (Cost \$9,186,530) <u>16,665,897</u>	United Kingdom	18.67
		Australia	8.64
		Canada	4.89
		Singapore	3.81
		Japan	3.26
		Total	<u>95.93%</u>
			*
			Includes cash equivalents.

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust  
Third Avenue Real Estate Value Fund  
Portfolio of Investments (continued)  
at October 31, 2011**

**Schedule of Forward Foreign Currency Contracts**

<u>Contracts to Buy</u>	<u>Currency</u>	<u>Counterparty</u>	<u>Settlement Date</u>	<u>Settlement Value</u>	<u>Value at 10/31/11</u>	<u>Unrealized Depreciation</u>
6,526,358,334	JPY	JPMorgan Chase Bank N.A.	10/29/12	\$85,534,073	\$84,154,152	\$(1,379,921)
<u>Contracts to Sell</u>	<u>Currency</u>	<u>Counterparty</u>	<u>Settlement Date</u>	<u>Settlement Value</u>	<u>Value at 10/31/11</u>	<u>Unrealized Depreciation</u>
11,628,710,000	JPY	JPMorgan Chase Bank N.A.	10/29/12	\$145,000,000	\$149,946,444	\$(4,946,444)

JPY: Japanese Yen

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust  
Third Avenue Real Estate Value Fund  
Statement of Assets and Liabilities  
October 31, 2011**

**Assets:**

Investments at value (Notes 1 and 5):	
Unaffiliated issuers (cost of \$1,264,330,000) .....	\$1,326,544,179
Affiliated issuers (cost of \$291,865,498) .....	234,740,622
Total investments (cost of \$1,556,195,498) .....	<u>1,561,284,801</u>
Cash .....	60,652,060
Restricted cash pledged to counterparty for collateral management .....	8,350,000
Receivable for securities sold .....	5,118,894
Dividends and interest receivable .....	2,392,462
Receivable for fund shares sold .....	1,698,569
Other assets .....	74,720
Total assets .....	<u>1,639,571,506</u>

**Liabilities:**

Unrealized depreciation on forward foreign currency contracts .....	6,326,365
Payable for fund shares redeemed .....	2,757,445
Payable to investment adviser (Note 3) .....	1,193,939
Payable for securities purchased .....	992,000
Accrued expenses .....	392,316
Payable for shareholder servicing fees (Note 3) .....	325,325
Distribution fees payable (Note 6) .....	124,627
Payable to trustees and officers .....	11,857
Total liabilities .....	<u>12,123,874</u>
Net assets .....	<u>\$1,627,447,632</u>

**Summary of net assets:**

Capital stock, \$0.001 par value .....	\$1,652,013,186
Accumulated distributions in excess of net investment income .....	(8,603,143)
Accumulated net realized losses on investments and foreign currency transactions .....	(14,607,702)
Net unrealized depreciation of investments and translation of foreign currency denominated assets and liabilities .....	(1,354,709)
Net assets applicable to capital shares outstanding .....	<u>\$1,627,447,632</u>

**Investor Class:**

Net assets applicable to 2,258,202 shares outstanding, unlimited number of shares authorized .....	\$ 48,326,830
Net asset value, offering and redemption price per share .....	<u>\$21.40</u>

**Institutional Class:**

Net assets applicable to 73,606,430 shares outstanding, unlimited number of shares authorized .....	\$1,579,120,802
Net asset value, offering and redemption price per share .....	<u>\$21.45</u>

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust**  
**Third Avenue Real Estate Value Fund**  
**Statement of Operations**  
**For the Year Ended October 31, 2011**

**Investment Income:**

Interest .....	\$ 3,441,276
Dividends - unaffiliated issuers (net of foreign withholding tax of \$825,459) .....	21,668,749
Dividends - affiliated issuers (Note 5) .....	15,015
Other income .....	19,120
Total investment income .....	<u>25,144,160</u>

**Expenses:**

Investment advisory fees (Note 3) .....	15,983,431
Shareholder servicing fees (Note 3) .....	2,321,027
Transfer agent fees .....	499,475
Reports to shareholders .....	284,928
Custodian fees .....	222,415
Trustees' and officers' fees and expenses .....	159,273
Accounting fees .....	149,644
Distribution fees (Note 6) .....	109,553
Administration fees (Note 3) .....	93,860
Auditing fees .....	74,038
Registration and filing fees .....	58,189
Legal fees .....	57,734
Insurance expenses .....	41,641
Miscellaneous expenses .....	41,667
Total expenses .....	20,096,875
Recovery of expenses previously waived (Note 3) .....	492,298
Expenses reduced by custodian fee expense offset arrangement (Note 3) .....	(63,763)
Net expenses .....	<u>20,525,410</u>
Net investment income .....	<u>4,618,750</u>

**Realized and unrealized gain/(loss) on investments and foreign currency transactions:**

Net realized gain on investments - unaffiliated issuers .....	96,186,234
Net realized gain on investments - affiliated issuers .....	3,885,219
Net realized gain on written options .....	2,775,546
Net realized loss on foreign currency transactions .....	(1,189,398)
Net change in unrealized appreciation/(depreciation) on investments .....	(153,158,956)
Net change in unrealized appreciation/(depreciation) on written options .....	(474,703)
Net change in unrealized appreciation/(depreciation) on translation of other assets and liabilities denominated in foreign currency .....	(6,240,818)
Net loss on investments and foreign currency transactions .....	<u>(58,216,876)</u>
<b>Net decrease in net assets resulting from operations .....</b>	<b><u>\$ (53,598,126)</u></b>

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust**  
**Third Avenue Real Estate Value Fund**  
**Statement of Changes in Net Assets**

	<b>For the Year Ended October 31, 2011</b>	<b>For the Year Ended October 31, 2010</b>
<b>Operations:</b>		
Net investment income .....	\$ 4,618,750	\$ 31,878,474
Net realized gain on investments - unaffiliated issuers .....	96,186,234	81,273,706
Net realized gain/(loss) on investments - affiliated issuers .....	3,885,219	(28,827,787)
Net realized gain on written options .....	2,775,546	3,498,443
Net realized loss on foreign currency transactions. ....	(1,189,398)	(627,652)
Net change in unrealized appreciation/(depreciation) on investments .....	(153,158,956)	154,484,913
Net change in unrealized appreciation/(depreciation) on written options .....	(474,703)	474,703
Net change in unrealized appreciation/(depreciation) on translation of other assets and liabilities denominated in foreign currency .....	(6,240,818)	(185,014)
Net increase (decrease) in net assets resulting from operations .....	<u>(53,598,126)</u>	<u>241,969,786</u>
<b>Dividends and Distributions to Shareholders from:</b>		
Net Investment income:		
Investor Class .....	(1,201,582)	—
Institutional Class .....	(66,294,990)	(18,486,993)
Decrease in net assets from dividends and distributions .....	<u>(67,496,572)</u>	<u>(18,486,993)</u>
<b>Capital Share Transactions:</b>		
Proceeds from sale of shares .....	395,952,018	423,704,060
Net asset value of shares issued in reinvestment of dividends and distributions .....	60,964,262	17,701,460
Redemption fees .....	54,729	55,883
Cost of shares redeemed .....	(389,669,216)	(365,016,347)
Net increase in net assets resulting from capital share transactions .....	<u>67,301,793</u>	<u>76,445,056</u>
Net increase (decrease) in net assets .....	(53,792,905)	299,927,849
Net assets at beginning of year .....	<u>1,681,240,537</u>	<u>1,381,312,688</u>
Net assets at end of year (including accumulated distributions in excess of net investment income and accumulated undistributed net investment income of \$(8,603,143) and \$36,982,565, respectively) .....	<u>\$1,627,447,632</u>	<u>\$1,681,240,537</u>

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust  
Third Avenue Real Estate Value Fund  
Financial Highlights**

Selected data (for a share outstanding throughout each period) and ratios are as follows:

	<u>For the Year Ended October 31, 2011</u>	<u>For the Period Ended October 31, 2010*</u>
<b>Investor Class:</b>		
Net asset value, beginning of period . . . . .	\$22.90	\$20.47
Income (loss) from investment operations:		
Net investment income <sup>®</sup> . . . . .	0.02	0.40
Net gain on investment transactions (both realized and unrealized) <sup>1</sup> . . . . .	<u>(0.63)</u>	<u>2.03</u>
Total from investment operations . . . . .	<u>(0.61)</u>	<u>2.43</u>
Less dividends and distributions to shareholders:		
Dividends from net investment income . . . . .	<u>(0.89)</u>	<u>—</u>
Total dividends and distributions . . . . .	<u>(0.89)</u>	<u>—</u>
Net asset value, end of period . . . . .	<u>\$21.40</u>	<u>\$22.90</u>
Total return <sup>2</sup> . . . . .	(2.89%)	11.87% <sup>3</sup>
<b>Ratios/Supplemental Data:</b>		
Net assets, end of period (in thousands) . . . . .	\$48,327	\$28,594
Ratio of expenses to average net assets		
Before fee waivers/expense offset arrangement/recovery . . . . .	1.38%	1.44% <sup>4</sup>
After fee waivers/expense offset arrangement/recovery <sup>5</sup> . . . . .	1.40% <sup>6</sup>	1.40% <sup>4#</sup>
Ratio of net investment income to average net assets . . . . .	0.11%	2.27% <sup>4</sup>
Portfolio turnover rate . . . . .	32%	26% <sup>3</sup>

<sup>1</sup> Includes redemption fees of less than \$0.01 per share.

<sup>2</sup> Performance figures may reflect fee waivers, expense offset arrangement and/or recovery of previously waived fees. Past performance is no guarantee of future results. Total return would have been lower if the Adviser had not waived certain expenses. Conversely, total return would have been higher if the Adviser had not recovered previously waived expenses.

<sup>3</sup> Not annualized.

<sup>4</sup> Annualized.

<sup>5</sup> As a result of an expense limitation, the ratio of expenses (exclusive of taxes, interest, brokerage commissions, acquired fund fees and expenses, and extraordinary items) to average net assets will not exceed 1.40%.

<sup>6</sup> The investment adviser recovered previously waived fees.

<sup>#</sup> The investment adviser waived a portion of its fees.

\* Period from December 31, 2009 (Commencement of Operations) to October 31, 2010.

<sup>®</sup> Calculated based on the average number of shares outstanding during the period.

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust  
Third Avenue Real Estate Value Fund  
Financial Highlights (continued)**

Selected data (for a share outstanding throughout each year) and ratios are as follows:

	Years Ended October 31,				
	2011	2010	2009	2008	2007
<b>Institutional Class:</b>					
Net asset value, beginning of year . . . . .	\$22.93	\$19.86	\$16.21	\$35.47	\$36.34
Income (loss) from investment operations:					
Net investment income . . . . .	0.06 <sup>®</sup>	0.44 <sup>®</sup>	0.63 <sup>®</sup>	0.31 <sup>®</sup>	0.85
Net gain/(loss) on investment transactions (both realized and unrealized) . . . . .	(0.62) <sup>3</sup>	2.89 <sup>3</sup>	3.45 <sup>1</sup>	(15.72) <sup>1</sup>	1.80 <sup>2</sup>
Total from investment operations . . . . .	(0.56)	3.33	4.08	(15.41)	2.65
Less dividends and distributions to shareholders:					
Dividends from net investment income . . . .	(0.92)	(0.26)	(0.43)	(0.60)	(0.89)
Distributions from realized gains . . . . .	—	—	—	(3.25)	(2.63)
Total dividends and distributions . . . . .	(0.92)	(0.26)	(0.43)	(3.85)	(3.52)
Net asset value, end of year . . . . .	<u>\$21.45</u>	<u>\$22.93</u>	<u>\$19.86</u>	<u>\$16.21</u>	<u>\$35.47</u>
Total return <sup>4</sup> . . . . .	(2.66%)	16.94%	26.16%	(47.87%)	7.68%
<b>Ratios/Supplemental Data:</b>					
Net assets, end of year (in thousands) . . . .	\$1,579,121	\$1,652,647	\$1,381,313	\$1,255,630	\$2,934,708
Ratio of expenses to average net assets					
Before fee waivers/expense offset arrangement/recovery . . . . .	1.13%	1.18%	1.18%	1.12%	1.10%
After fee waivers/expense offset arrangement/recovery <sup>5</sup> . . . . .	1.15% <sup>6</sup>	1.14% <sup>#</sup>	1.18%	1.12%	1.10%
Ratio of net investment income to average net assets . . . . .	0.26%	2.09%	4.00%	1.22%	1.14%
Portfolio turnover rate . . . . .	32%	26%	24%	34%	19%

<sup>1</sup> Includes redemption fees of \$0.01 per share.

<sup>2</sup> Includes redemption fees of \$0.02 per share.

<sup>3</sup> Includes redemption fees of less than \$0.01 per share.

<sup>4</sup> Performance figures may reflect fee waivers, expense offset arrangement and/or recovery of previously waived fees. Past performance is no guarantee of future results. Total return would have been lower if the Adviser had not waived certain expenses. Conversely, total return would have been higher if the Adviser had not recovered previously waived expenses.

<sup>5</sup> As a result of an expense limitation, the ratio of expenses (exclusive of taxes, interest, brokerage commissions, acquired fund fees and expenses, and extraordinary items) to average net assets will not exceed 1.15% effective December 31, 2009.

<sup>6</sup> The investment adviser recovered previously waived fees.

<sup>#</sup> The investment adviser waived a portion of its fees.

<sup>®</sup> Calculated based on the average number of shares outstanding during the period.

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust**  
**Third Avenue International Value Fund**  
**Portfolio Management Discussion – October 31, 2011**  
**(Unaudited)**

At October 31, 2011, the audited net asset value attributable to each of the 915,520 common shares outstanding of the Third Avenue International Value Fund Investor Class and 83,369,276 common shares outstanding of Third Avenue International Value Fund Institutional Class were \$15.29 and \$15.33 respectively. This compares with audited net asset values at October 31, 2010 of \$16.05 and \$16.04 per share respectively, adjusted for a subsequent distribution to shareholders.

	Average Annual Returns for the periods ended October 31, 2011			
	One Year ended 10/31/11	Three Year	Five Year	Since Inception
Third Avenue International Value Fund Investor Class†	(4.76%)	N/A	N/A	0.08%
Third Avenue International Value Fund Institutional Class^	(4.51%)	11.64%	(1.63%)	9.04%
Morgan Stanley Capital International All Country World ex US Index‡	(4.25%)	13.43%	0.08%	7.56%

† Investor Class commenced investment operations on December 31, 2009.

^ Institutional Class commenced investment operations on December 31, 2001.

‡ The date used to calculate the Since Inception performance for the index is the inception date of the Institutional Class.

The largest detractor from performance of Third Avenue International Value Fund (the “Fund”) was WBL Corp., a Singapore-based holding company. WBL has a unique collection of assets of considerable value which, due in part to the company’s obscurity and in part to the complexity of its corporate structure, have not yet been reflected in the company’s common stock price. The company’s stock trades at a large discount to the value of its high quality assets, a discrepancy which we believe will be recognized over time. Our conviction in the company and its long-term potential value creation remains high, as reflected by its position in the portfolio.

The second largest detractor from performance was Rubicon Ltd., a New Zealand-listed holding company with investments primarily in forest products, biotechnology, and building products distribution. The company’s common stock price declined during the year due largely to the cancellation of a planned IPO for one of its unlisted investments, which was withdrawn due to market uncertainty. While the stock performed poorly during the year, we continue to believe that the company’s fundamentals remain sound and that it continues to have the potential for significant positive performance over the long term.

The third largest detractor from performance was Netia S.A., a provider of telecommunications services in Poland. Despite the negative return for the stock during the year, which was likely attributable in part to the general economic turmoil in European markets this year, the company has made progress in increasing cash generation, improving profit margins and growing the business. The company continues to have a strong balance sheet, a modest valuation, and an underlying investment case that remains very attractive.

**Third Avenue Trust**  
**Third Avenue International Value Fund**  
**Portfolio Management Discussion (continued)**  
**(Unaudited)**

The Fund's largest positive contributor to performance during the year was Compagnie Nationale a Portefeuille ("CNP"). CNP's strong share price performance was driven by a buyout offer made by Fingen S.A., an entity through which Belgian billionaire Albert Frere already held control of CNP. The offer price, which was subsequently increased to €49.01 per share, represented a premium of about 22% over CNP's closing price prior to the offer announcement. The sale was completed in May 2011, closing much of the discount to net asset value (NAV) at which CNP had been trading, with the resultant benefits accruing to CNP shareholders.

The second largest positive contributor was Dundee Precious Metals, a gold mining company, which benefitted from the strong price of gold during the year, particularly during moments of crisis, as well as from favorable company-specific developments.

The third largest positive contributor was Prologis European Properties ("PEPR"), a company that was sold as the result of a takeover offer. In April, a consortium led by Goodman Group and another large shareholder made an unsolicited offer for the entire company. Ultimately, ProLogis (the company's external manager) offered to purchase all shares of PEPR that it didn't already own at €6.20 in order to maintain control of the company. We felt that the tender offer from ProLogis valued PEPR fairly, leading us to tender our entire position.

THE INFORMATION IN THE PORTFOLIO MANAGEMENT DISCUSSION REPRESENTS A FACTUAL OVERVIEW OF THE FUND'S PERFORMANCE AND IS NOT INTENDED TO BE A FORECAST OF FUTURE EVENTS, A GUARANTEE OF FUTURE RESULTS NOR INVESTMENT ADVICE. VIEWS EXPRESSED ARE THOSE OF THE INVESTMENT TEAM AND MAY DIFFER FROM THOSE OF OTHER INVESTMENT TEAMS OR THE FIRM AS A WHOLE. ALSO, PLEASE NOTE THAT ANY DISCUSSION OF THE PORTFOLIO'S HOLDINGS, THE FUND'S PERFORMANCE, AND THE INVESTMENT TEAM'S VIEWS ARE AS OF OCTOBER 31, 2011, AND ARE SUBJECT TO CHANGE.

The Fund's performance may be influenced by a foreign country's political, social and economic situation. Other risks include currency fluctuations, less liquidity, lack of efficient trading markets, and different auditing and legal standards. These risks may result in more volatility for the Fund. These and other risks are described more fully in the Fund's prospectus.

Third Avenue International Value Fund **is offered by prospectus only**. The prospectus contains more complete information on advisory fees, distribution charges, and other expenses and should be read carefully before investing or sending money. Past performance is no guarantee of future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than original cost. The Fund's returns should be viewed in light of its investment policy and objectives and quality of its portfolio securities and the periods selected. M.J. Whitman LLC Distributor.

If you should have any questions, or for updated information (including performance data current to the most recent month-end) or a copy of our prospectus, please call 1-800-443-1021 or go to our web site at [www.thirdave.com](http://www.thirdave.com). Current performance may be lower or higher than performance quoted.

**Third Avenue Trust**  
**Third Avenue International Value Fund**  
**Portfolio Management Discussion (continued)**  
**(Unaudited)**

The Morgan Stanley Capital International All Country World ex US Index is an unmanaged index of common stocks and includes securities representative of the market structure of over 50 developed and emerging market countries (other than the United States) in North America, Europe, Latin America and the Asian Pacific Region. This index is not a security that can be purchased or sold, and its total returns are reflective of unmanaged portfolios. The returns include reinvestment of all distributions.

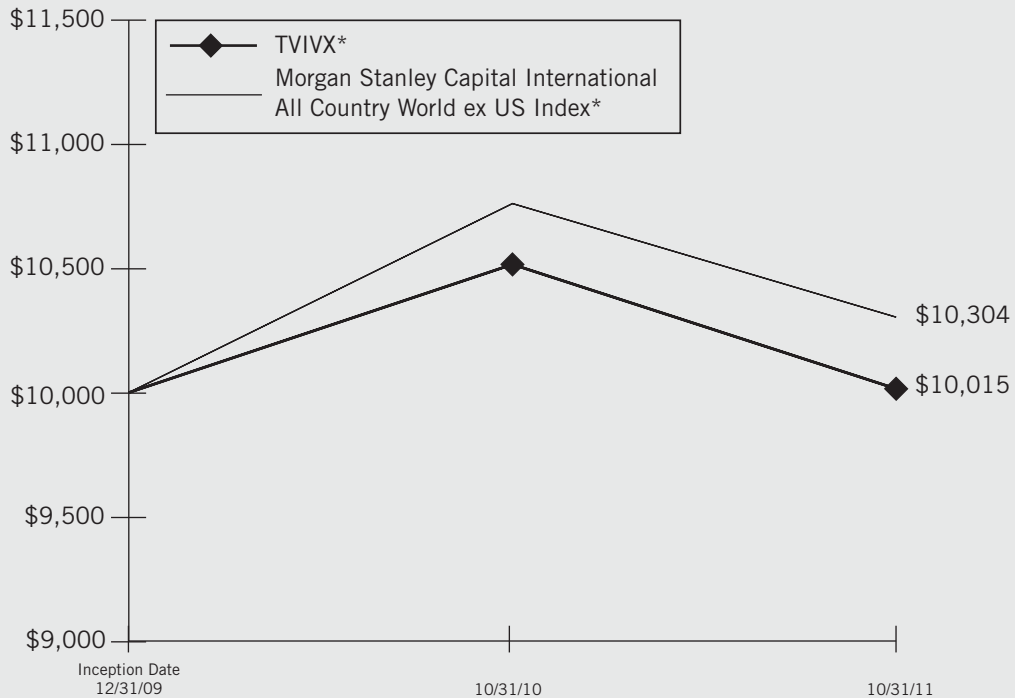
**Third Avenue Trust**  
**Third Avenue International Value Fund – Investor Class**  
**Comparison of a \$10,000 Investment**  
**(Unaudited)**

**Performance Illustration**

COMPARISON OF CHANGE IN VALUE OF A \$10,000 INVESTMENT IN *THIRD AVENUE INTERNATIONAL VALUE FUND – INVESTOR CLASS (TVIVX)*  
AND THE MORGAN STANLEY CAPITAL INTERNATIONAL ALL COUNTRY WORLD EX US INDEX  
FROM INCEPTION OF THE FUND (12/31/09) THROUGH OCTOBER 31, 2011

**Average Annual Total Return**

1 Year (4.76%)	Since Inception (12/31/09) 0.08%
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\* Includes reinvestment of all distributions.

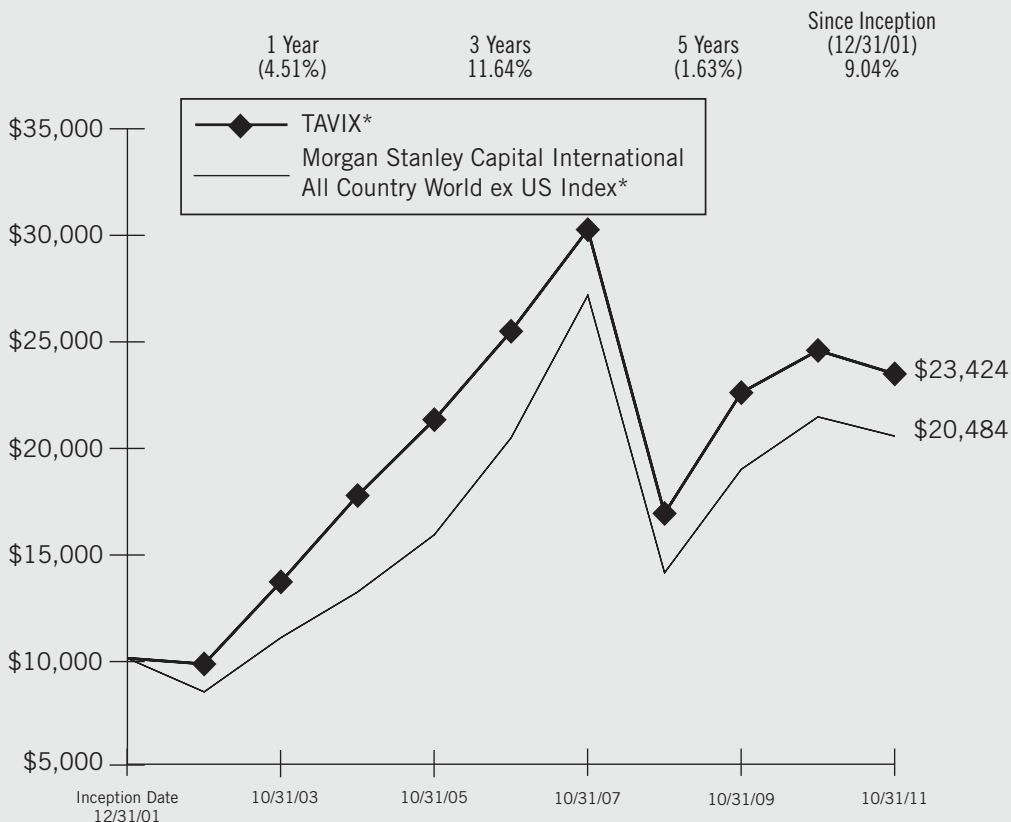
As with all mutual funds, past performance does not indicate future results. Performance may reflect fee waivers, expense offset arrangement and/or recovery. Total return would have been lower if the Adviser had not waived certain expenses. Conversely, total return would have been higher if the Adviser had not recovered previously waived expenses. Also, the returns shown in the graph and table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

**Third Avenue Trust**  
**Third Avenue International Value Fund – Institutional Class**  
**Comparison of a \$10,000 Investment**  
**(Unaudited)**

**Performance Illustration**

COMPARISON OF CHANGE IN VALUE OF A \$10,000 INVESTMENT IN **THIRD AVENUE INTERNATIONAL VALUE FUND – INSTITUTIONAL CLASS (TAVIX)**  
 AND THE MORGAN STANLEY CAPITAL INTERNATIONAL ALL COUNTRY WORLD EX US INDEX  
 FROM INCEPTION OF THE FUND (12/31/01) THROUGH OCTOBER 31, 2011

**Average Annual Total Return**

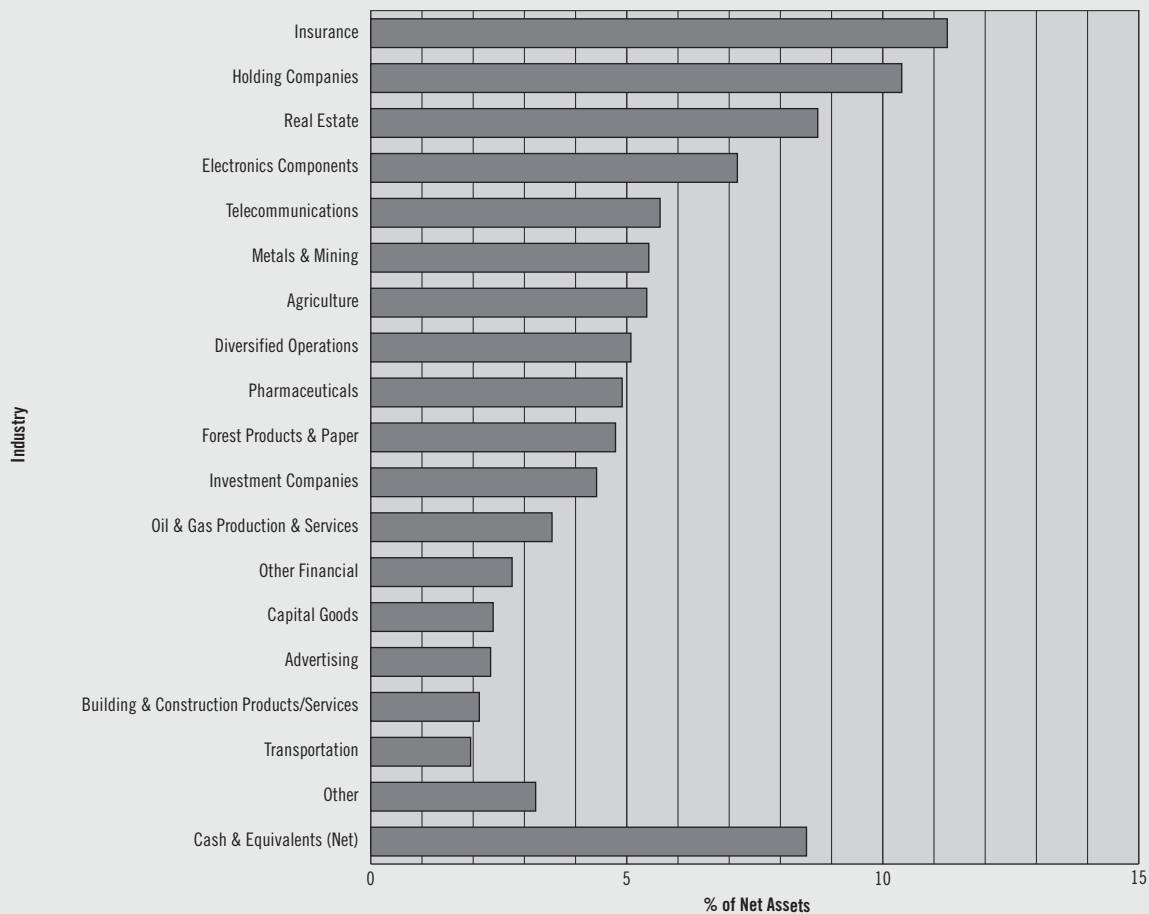


\* Includes reinvestment of all distributions.

As with all mutual funds, past performance does not indicate future results. Performance may reflect fee waivers, expense offset arrangement and/or recovery. Total return would have been lower if the Adviser had not waived certain expenses. Conversely, total return would have been higher if the Adviser had not recovered previously waived expenses. Also, the returns shown in the graph and table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

**Third Avenue Trust  
Third Avenue International Value Fund  
Industry Diversification  
(Unaudited)**

The summary of the Fund's investments as of October 31, 2011 is as follows:



*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust**  
**Third Avenue International Value Fund**  
**Portfolio of Investments**  
**at October 31, 2011**

Shares		Value (Note 1)	Shares		Value (Note 1)
<b>Common Stocks and Warrants - 91.49%</b>			<b>Holding Companies - 10.37%</b>		
	<b>Advertising - 2.34%</b>		2,693,400	Guoco Group, Ltd. (Hong Kong) <sup>1</sup>	\$ 25,591,609
1,287,900	Asatsu-DK, Inc. (Japan)	\$ 30,226,164	1,644,208	Leucadia National Corp.	44,114,101
	<b>Agriculture - 5.39%</b>		592,505	LG Corp. (South Korea)	34,675,394
5,661,364	Viterra, Inc. (Canada)	58,274,988	378,181	Pargesa Holding S.A. (Switzerland)	29,533,324
1,100,000	Viterra, Inc. (Canada) (d)	11,322,799			<u>133,914,428</u>
		<u>69,597,787</u>		<b>Insurance - 11.26%</b>	
	<b>Automotive - 0.93%</b>		349,693	Allianz SE (Germany)	38,907,591
237,597	Daimler AG (Germany)	12,067,338	266,893	Munich Re (Germany)	35,742,150
	<b>Building &amp; Construction Products/Services - 2.12%</b>		1,166,112	Sampo Oyj, Class A (Finland)	32,052,887
10,482,120	Tenon, Ltd. (New Zealand) (a) (c)	5,340,751	237,700	Tokio Marine Holdings, Inc. (Japan)	5,667,834
1,138,864	Titan Cement Co. S.A. (Greece)	21,993,782	78,722	White Mountains Insurance Group Ltd. <sup>1</sup>	33,063,240
		<u>27,334,533</u>			<u>145,433,702</u>
	<b>Capital Goods - 2.39%</b>		12,945,515	<b>Investment Companies - 4.41%</b>	
489,736	Nexans S.A. (France)	30,805,658		Resolution, Ltd. (Guernsey)	56,971,735
	<b>Corporate Services - 0.74%</b>		164,073	<b>Machinery - 1.12%</b>	
22,522,784	Boardroom, Ltd. (Singapore) (c)	9,565,829		Andritz AG (Austria)	14,502,821
	<b>Diversified Operations - 5.08%</b>		642,497	<b>Media - 0.43%</b>	
1,204,745	Antarchile S.A. (Chile)	20,897,820		Alma Media Corp. (Finland)	5,597,070
3,039,200	Hutchison Whampoa, Ltd. (Hong Kong)	27,797,872	2,381,100	<b>Metals &amp; Mining - 5.43%</b>	
550,175	Lundbergforetagen AB, Class B (Sweden)	16,961,763	500,400	Dundee Precious Metals, Inc. (Canada) (a)	19,110,911
		<u>65,657,455</u>		Dundee Precious Metals, Inc. Warrants, expires 6/29/12 (Canada) (a)	82,835
	<b>Electronics Components - 7.16%</b>		108,300	Dundee Precious Metals, Inc. Warrants, expires 11/20/15 (Canada) (a)	543,266
37,050,140	WBL Corp., Ltd. (Singapore) (c)	92,500,422	1,672,046	Kinross Gold Corp. (Canada)	23,837,245
	<b>Forest Products &amp; Paper - 4.78%</b>		22,869	Kinross Gold Corp. Warrants, expires 9/17/14 (Canada) (a)	55,523
72,271,095	Catalyst Paper Corp. (Canada) (a) (b) (c) (e)	4,618,680	397,186	Newmont Mining Corp.	26,543,940
51,395,523	Rubicon, Ltd. (New Zealand) (a) (c)	16,323,873			<u>70,173,720</u>
2,265,983	Weyerhaeuser Co.	40,742,374			
		<u>61,684,927</u>			

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust**  
**Third Avenue International Value Fund**  
**Portfolio of Investments (continued)**  
**at October 31, 2011**

Shares		Value (Note 1)	Notional Amount (\$)		Value (Note 1)
<b>Common Stocks and Warrants (continued)</b>			<b>Purchased Options - 1.18%</b>		
	<b>Oil &amp; Gas Production &amp; Services - 3.54%</b>			<b>Foreign Currency Put Options - 1.18% (a)</b>	
993,802	EnCana Corp. (Canada)	\$ 21,565,503	138,000,000	Canadian Currency, strike 1.02	
1,050,902	Petroleum Geo-Services ASA (Norway) (a)	11,417,815	161,000,000	Canadian Dollar, expires 2/10/12	\$ 2,401,200
1,099,300	Precision Drilling Corp. (Canada) (a)	12,749,343	161,000,000	Euro Currency, strike 1.366 Euro, expires 5/31/12	6,130,075
		<u>45,732,661</u>		Euro Currency, strike 1.366 Euro, expires 5/31/12	5,832,120
	<b>Other Financial - 2.76%</b>		75,000,000	Japan Currency, strike 88.00 Yen, expires 12/2/11	1,875
62,589,892	Yuanta Financial Holding Co., Ltd. (Taiwan)	<u>35,679,188</u>	145,000,000	Japan Currency, strike 81.50 Yen, expires 1/27/12	750,962
	<b>Pharmaceuticals - 4.91%</b>		123,000,000	Japan Currency, strike 86.08 Yen, expires 2/6/12	<u>187,575</u>
1,104,214	GlaxoSmithKline PLC (United Kingdom)	24,781,136		<b>Total Purchased Options</b>	
540,537	Sanofi (France)	38,669,495		(Cost \$25,083,700)	<u>15,303,807</u>
		<u>63,450,631</u>			
	<b>Real Estate - 8.73%</b>		<b>Principal Amount (\$)</b>		
5,486,319	Atrium European Real Estate, Ltd. (Jersey)	27,654,001		<b>Short Term Investments - 3.87%</b>	
2,187,000	Mitsui Fudosan Co., Ltd. (Japan)	36,370,437		<b>U.S. Government Obligations - 3.87%</b>	
3,178,485	SEGRO PLC (United Kingdom)	12,429,071	50,000,000	U.S. Treasury Bill, 0.01% <sup>†</sup> , due 11/25/11	49,999,683
61,235,872	Taylor Wimpey PLC (United Kingdom) (a)	36,243,803		<b>Total Short Term Investments</b>	<u>49,999,683</u>
		<u>112,697,312</u>		(Cost \$49,999,683)	
	<b>Telecommunications - 5.65%</b>			<b>Total Investment Portfolio - 96.54%</b>	
42,909,495	Netia S.A. (Poland) (a) (c)	72,966,958		(Cost \$1,387,623,028)	1,247,004,352
	<b>Transportation - 1.95%</b>			<b>Other Assets less Liabilities - 3.46%</b>	<u>44,666,986</u>
3,351,000	Seino Holdings Co., Ltd. (Japan)	25,140,523		<b>NET ASSETS - 100.00%</b>	<u>\$1,291,671,338</u>
	<b>Total Common Stocks and Warrants</b>				
	(Cost \$1,312,539,645)	<u>1,181,700,862</u>			

Notes:

- (a) Non-income producing security.
- (b) Fair-valued security.
- (c) Affiliated issuers - as defined under the Investment Company Act of 1940 (ownership of 5% or more of the outstanding voting securities of these issuers).

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust  
Third Avenue International Value Fund  
Portfolio of Investments (continued)  
at October 31, 2011**

- (d) Security is exempt from registration under Rule 144A of the Securities Act of 1933. This security may be resold in transactions that are exempt from registration, normally to qualified institutionalized buyers.
- (e) Restricted security subject to restrictions on resale.

Acquisition Shares	Issuer	Acquisition Date	Acquisition Cost	10/31/11 Carrying Value Per Unit
72,271,095	Catalyst Paper Corp.	1/3/06 - 3/10/09	\$136,646,535	\$0.06

At October 31, 2011, the restricted security had a total market value of \$4,618,680 or 0.36% of net assets of the Fund.

- † Annualized yield at date of purchase.
- <sup>1</sup> Incorporated in Bermuda.

**Country Concentration**

	% of Net Assets
United States*	16.24%
Canada	11.78
Singapore	7.90
Japan	7.54
Germany	6.71
United Kingdom	5.69
Poland	5.65
France	5.38
Guernsey	4.41
Hong Kong	4.13
Finland	2.92
Taiwan	2.76
South Korea	2.69
Switzerland	2.29
Jersey	2.14
Greece	1.70
New Zealand	1.68
Chile	1.62
Sweden	1.31
Austria	1.12
Norway	0.88
Total	<u>96.54%</u>

\* Includes cash equivalents.

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust**  
**Third Avenue International Value Fund**  
**Statement of Assets and Liabilities**  
**October 31, 2011**

**Assets:**

Investments at value (Notes 1 and 5):	
Unaffiliated issuers (cost of \$1,064,674,262) .....	\$1,045,687,839
Affiliated issuers (cost of \$322,948,766) .....	201,316,513
Total investments (cost of \$1,387,623,028) .....	1,247,004,352
Cash .....	62,327,742
Dividends and interest receivable .....	2,201,530
Dividend reclaims receivable .....	1,403,211
Receivable for securities sold .....	1,106,326
Receivable for fund shares sold .....	563,771
Other assets .....	67,836
Total assets .....	<u>1,314,674,768</u>

**Liabilities:**

Payable for securities purchased .....	18,971,439
Payable for fund shares redeemed .....	2,021,632
Payable to investment adviser (Note 3) .....	1,402,455
Accrued expenses .....	388,526
Payable for shareholder servicing fees (Note 3) .....	177,024
Distribution fees payable (Note 6) .....	31,982
Payable to trustees and officers .....	10,372
Total liabilities .....	<u>23,003,430</u>
Net assets .....	<u>\$1,291,671,338</u>

**Summary of net assets:**

Capital stock, \$0.001 par value .....	\$1,544,766,757
Accumulated undistributed net investment income .....	10,835,379
Accumulated net realized losses on investments and foreign currency transactions .....	(123,433,714)
Net unrealized depreciation of investments and translation of foreign currency denominated assets and liabilities .....	(140,497,084)
Net assets applicable to capital shares outstanding .....	<u>\$1,291,671,338</u>

**Investor Class:**

Net assets applicable to 915,520 shares outstanding, unlimited number of shares authorized .....	\$ 13,996,882
Net asset value, offering and redemption price per share .....	<u>\$15.29</u>

**Institutional Class:**

Net assets applicable to 83,369,276 shares outstanding, unlimited number of shares authorized .....	\$1,277,674,456
Net asset value, offering and redemption price per share .....	<u>\$15.33</u>

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust**  
**Third Avenue International Value Fund**  
**Statement of Operations**  
**For the Year Ended October 31, 2011**

**Investment Income:**

Interest .....	\$ 28,903
Dividends - unaffiliated issuers (net of foreign withholding tax of \$3,652,147) .....	26,036,712
Dividends - affiliated issuers (Note 5) .....	3,859,283
Other income .....	35
Total investment income .....	29,924,933

**Expenses:**

Investment advisory fees (Note 3) .....	18,832,280
Shareholder servicing fees (Note 3) .....	1,161,448
Custodian fees .....	567,274
Transfer agent fees .....	326,327
Reports to shareholders .....	195,409
Accounting fees .....	152,598
Trustees' and officers' fees and expenses .....	139,662
Administration fees (Note 3) .....	80,090
Auditing fees .....	76,870
Legal fees .....	55,659
Registration and filing fees .....	53,808
Distribution fees (Note 6) .....	37,080
Insurance expenses .....	36,180
Miscellaneous expenses .....	40,375
Total expenses .....	21,755,060
Less: Expense waived (Note 3) .....	(582,479)
Expenses reduced by custodian fee expense offset arrangement (Note 3) .....	(43,347)
Net expenses .....	21,129,234
Net investment income .....	8,795,699

**Realized and unrealized gain/(loss) on investments and foreign currency transactions:**

Net realized gain on investments - unaffiliated issuers .....	114,659,830
Net realized gain on investments - affiliated issuers .....	7,520,595
Net realized loss on foreign currency transactions .....	(1,011,298)
Net change in unrealized appreciation/(depreciation) on investments .....	(185,973,301)
Net change in unrealized appreciation/(depreciation) on translation of other assets and liabilities denominated in foreign currency .....	53,679
Net loss on investments and foreign currency transactions .....	(64,750,495)

**Net decrease in net assets resulting from operations** ..... **\$ (55,954,796)**

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust**  
**Third Avenue International Value Fund**  
**Statement of Changes in Net Assets**

	<b>For the Year Ended October 31, 2011</b>	<b>For the Year Ended October 31, 2010</b>
<b>Operations:</b>		
Net investment income .....	\$ 8,795,699	\$ 22,264,787
Net realized gain/(loss) on investments - unaffiliated issuers .....	114,659,830	(57,025,495)
Net realized gain on investments - affiliated issuers .....	7,520,595	—
Net realized loss on foreign currency transactions .....	(1,011,298)	(638,572)
Net change in unrealized appreciation/(depreciation) on investments .....	(185,973,301)	155,446,846
Net change in unrealized appreciation/(depreciation) on translation of other assets and liabilities denominated in foreign currency .....	53,679	30,369
Net increase (decrease) in net assets resulting from operations .....	<u>(55,954,796)</u>	<u>120,077,935</u>
<b>Dividends and Distributions to Shareholders from:</b>		
Net investment income:		
Investor Class .....	(114,939)	—
Institutional Class .....	(26,082,360)	(16,339,865)
Decrease in net assets from dividends and distributions .....	<u>(26,197,299)</u>	<u>(16,339,865)</u>
<b>Capital Share Transactions:</b>		
Proceeds from sale of shares .....	213,311,078	446,703,026
Net asset value of shares issued in reinvestment of dividends and distributions .....	24,295,567	15,301,778
Redemption fees .....	9,022	43,009
Cost of shares redeemed .....	(388,008,022)	(373,930,396)
Net increase (decrease) in net assets resulting from capital share transactions .....	<u>(150,392,355)</u>	<u>88,117,417</u>
Net increase (decrease) in net assets .....	(232,544,450)	191,855,487
Net assets at beginning of year .....	<u>1,524,215,788</u>	<u>1,332,360,301</u>
Net assets at end of year (including accumulated undistributed net investment income and accumulated distributions in excess of net investment income of \$10,835,379 and \$(2,097,900), respectively) .....	<u>\$1,291,671,338</u>	<u>\$1,524,215,788</u>

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust  
Third Avenue International Value Fund  
Financial Highlights**

**Selected data (for a share outstanding throughout each period) and ratios are as follows:**

	<b>For the Year Ended October 31, 2011</b>	<b>For the Period Ended October 31, 2010*</b>
<b>Investor Class:</b>		
Net asset value, beginning of period .....	<u>\$16.31</u>	<u>\$15.51</u>
Income (loss) from investment operations:		
Net investment income <sup>®</sup> .....	0.09	0.32
Net gain/(loss) on investment transactions (both realized and unrealized) <sup>1</sup> .....	<u>(0.85)</u>	<u>0.48</u>
Total from investment operations .....	<u>(0.76)</u>	<u>0.80</u>
Less dividends and distributions to shareholders:		
Dividends from net investment income .....	<u>(0.26)</u>	<u>—</u>
Total dividends and distributions .....	<u>(0.26)</u>	<u>—</u>
Net asset value, end of period .....	<u>\$15.29</u>	<u>\$16.31</u>
Total return <sup>2</sup> .....	(4.76%)	5.16% <sup>4</sup>
<b>Ratios/Supplemental Data:</b>		
Net assets, end of period (in thousands) .....	\$13,997	\$6,920
Ratio of expenses to average net assets		
Before fee waivers and expense offset arrangement .....	1.69%	1.77% <sup>5</sup>
After fee waivers and expense offset arrangement <sup>3#</sup> .....	1.65%	1.65% <sup>5</sup>
Ratio of net investment income to average net assets .....	0.56%	2.55% <sup>5</sup>
Portfolio turnover rate .....	24%	13% <sup>4</sup>

<sup>1</sup> Includes redemption fees of less than \$0.01 per share.

<sup>2</sup> Performance figures may reflect fee waivers and/or expense offset arrangement. Past performance is no guarantee of future results. In the absence of fee waivers and/or expense offset arrangement, the total return would have been lower.

<sup>3</sup> As a result of an expense limitation, the ratio of expenses (exclusive of taxes, interest, brokerage commissions, acquired fund fees and expenses, and extraordinary items) to average net assets will not exceed 1.65%.

<sup>4</sup> Not annualized.

<sup>5</sup> Annualized.

<sup>#</sup> The investment adviser waived a portion of its fees.

\* Period from December 31, 2009 (Commencement of Operations) to October 31, 2010.

® Calculated based on the average number of shares outstanding during the period.

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust**  
**Third Avenue International Value Fund**  
**Financial Highlights (continued)**

Selected data (for a share outstanding throughout each year) and ratios are as follows:

	Years Ended October 31,				
	2011	2010	2009	2008	2007
<b>Institutional Class:</b>					
Net asset value, beginning of year . . . . .	\$16.33	\$15.18	\$11.51	\$25.01	\$23.77
Income (loss) from investment operations:					
Net investment income . . . . .	0.10 <sup>Ⓞ</sup>	0.24 <sup>Ⓞ</sup>	0.11 <sup>Ⓞ</sup>	0.10 <sup>Ⓞ</sup>	0.37
Net gain/(loss) on investment transactions (both realized and unrealized) . . . . .	(0.81) <sup>1</sup>	1.09 <sup>1</sup>	3.73 <sup>2</sup>	(9.76) <sup>2</sup>	3.69 <sup>1</sup>
Total from investment operations . . . . .	(0.71)	1.33	3.84	(9.66)	4.06
Less dividends and distributions to shareholders:					
Dividends from net investment income . . . . .	(0.29)	(0.18)	(0.03)	(0.78)	(1.08)
Distributions from realized gains . . . . .	—	—	(0.14)	(3.06)	(1.74)
Total dividends and distributions . . . . .	(0.29)	(0.18)	(0.17)	(3.84)	(2.82)
Net asset value, end of year . . . . .	<u>\$15.33</u>	<u>\$16.33</u>	<u>\$15.18</u>	<u>\$11.51</u>	<u>\$25.01</u>
Total return <sup>3</sup> . . . . .	(4.51%)	8.84%	33.87%	(44.31%)	18.86%
<b>Ratios/Supplemental Data:</b>					
Net assets, end of year (in thousands) . . . . .	\$1,277,674	\$1,517,296	\$1,332,360	\$1,069,308	\$2,328,583
Ratio of expenses to average net assets					
Before fee waivers and expense offset arrangement . . . . .	1.44%	1.51%	1.51%	1.48%	1.45%
After fee waivers and expense offset arrangement <sup>4</sup> . . . . .	1.40% <sup>#</sup>	1.40% <sup>#</sup>	1.47% <sup>#</sup>	1.48%	1.45%
Ratio of net investment income to average net assets . . . . .	0.58%	1.58%	0.89%	0.57%	1.48%
Portfolio turnover rate . . . . .	24%	13%	16%	30%	23%

<sup>1</sup> Includes redemption fees of less than \$0.01 per share.

<sup>2</sup> Includes redemption fees of \$0.01 per share.

<sup>3</sup> Performance figures may reflect fee waivers and/or expense offset arrangement. Past performance is no guarantee of future results. In the absence of fee waivers and/or expense offset arrangement, the total return would have been lower.

<sup>4</sup> As a result of an expense limitation, effective July 1, 2009, the ratio of expenses (exclusive of taxes, interest, brokerage commissions, acquired fund fees and expenses, and extraordinary items) to average net assets will not exceed 1.40%. Effective March 1, 2011, the expense limitation period has been extended to February 29, 2012. Prior to July 1, 2009, the expense limitation was 1.75%.

<sup>#</sup> The investment adviser waived a portion of its fees.

<sup>Ⓞ</sup> Calculated based on the average number of shares outstanding during the period.

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust  
Third Avenue Focused Credit Fund  
Portfolio Management Discussion – October 31, 2011  
(Unaudited)**

At October 31, 2011, the audited net asset values attributable to each of the 32,167,507 common shares outstanding of the Third Avenue Focused Credit Fund Investor Class and 72,882,095 common shares outstanding of Third Avenue Focused Credit Fund Institutional Class were \$10.51 and \$10.50 respectively. This compares with audited net asset values at October 31, 2010 of \$10.47 and \$10.45 per share respectively, adjusted for subsequent distributions to shareholders.

	<b>Average Annual Returns for the period ended October 31, 2011</b>	
	<b>One year ended 10/31/11</b>	<b>Since inception (8/31/09)</b>
Third Avenue Focused Credit Fund Investor Class	0.24%	8.95%
Third Avenue Focused Credit Fund Institutional Class	0.37%	9.15%
Barclays Capital U.S. Corporate High Yield Index	5.17%	14.87%
Credit Suisse Leveraged Loan Index	3.54%	8.66%

Third Avenue Focused Credit Fund (the “Fund”) owns 1st lien loans in Koosharem, a California-based staffing company currently undergoing a financial restructuring. Delays in this restructuring, caused by turmoil in the debt markets, have been reflected in the price of the loan we purchased. During the year, it was a detractor from overall performance. The ultimate resolution of this investment remains to be seen.

Shipping company General Maritime, another issuer owned by the Fund, filed for bankruptcy protection after the end of the Fund’s fiscal year. It was a performance detractor for the year and the ultimate resolution of the investment is yet to be determined.

Lehman Brothers, the Fund’s largest holding, was a positive contributor to performance. Progress has been made regarding Lehman’s eventual dispersion of payments to its creditors. We believe that this investment continues to have strong mid-term potential for Fund performance.

THE INFORMATION IN THE PORTFOLIO MANAGEMENT DISCUSSION REPRESENTS A FACTUAL OVERVIEW OF THE FUND’S PERFORMANCE AND IS NOT INTENDED TO BE A FORECAST OF FUTURE EVENTS, A GUARANTEE OF FUTURE RESULTS NOR INVESTMENT ADVICE. VIEWS EXPRESSED ARE THOSE OF THE INVESTMENT TEAM AND MAY DIFFER FROM THOSE OF OTHER INVESTMENT TEAMS OR THE FIRM AS A WHOLE. ALSO, PLEASE NOTE THAT ANY DISCUSSION OF THE PORTFOLIO’S HOLDINGS, THE FUND’S PERFORMANCE, AND THE INVESTMENT TEAM’S VIEWS ARE AS OF OCTOBER 31, 2011, AND ARE SUBJECT TO CHANGE.

The Fund’s investments in high-yield and distressed securities may expose the Fund to greater risks than if the Fund only owned higher-grade securities. The value of high-yield, lower quality securities is affected by the creditworthiness of the issuers of the securities and by general economic and specific industry conditions. Issuers of high-yield securities are not

**Third Avenue Trust**  
**Third Avenue Focused Credit Fund**  
**Portfolio Management Discussion (continued)**  
**(Unaudited)**

as strong financially as those with higher credit ratings, so the securities are usually considered speculative investments. These and other risks are described more fully in the Fund's prospectus.

Third Avenue Focused Credit Fund **is offered by prospectus only**. The prospectus contains more complete information on advisory fees, distribution charges, and other expenses and should be read carefully before investing or sending money. Past performance is no guarantee of future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than original cost. The Fund's returns should be viewed in light of its investment policy and objectives and quality of its portfolio securities and the periods selected. M.J. Whitman LLC Distributor.

If you should have any questions, or for updated information (including performance data current to the most recent month-end) or a copy of our prospectus, please call 1-800-443-1021 or go to our web site at [www.thirdave.com](http://www.thirdave.com). Current performance may be lower or higher than performance quoted.

The Barclays Capital U.S. Corporate High Yield Index comprises issues that have at least \$150 million par value outstanding, a maximum credit rating of Ba1 or BB+ (including defaulted issues) and at least one year to maturity. The Credit Suisse Leveraged Loan Index is designed to mirror the investible universe of the \$US-denominated leveraged loan market. The Barclays Capital U.S. Corporate High Yield Index and the Credit Suisse Leveraged Loan Index are not securities that can be purchased or sold, and their total returns are reflective of unmanaged portfolios. The returns include reinvestment of all distributions.

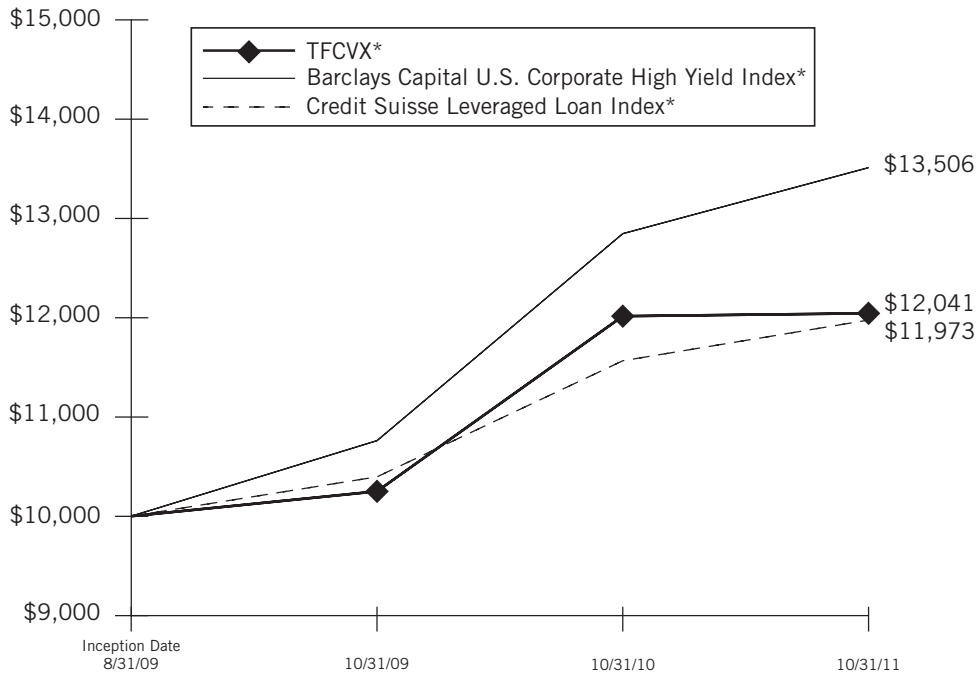
**Third Avenue Trust  
Third Avenue Focused Credit Fund—Investor Class  
Comparison of a \$10,000 Investment  
(Unaudited)**

**Performance Illustration**

COMPARISON OF CHANGE IN VALUE OF A \$10,000 INVESTMENT IN *THIRD AVENUE FOCUSED CREDIT FUND—INVESTOR CLASS (TFCVX)*,  
THE BARCLAYS CAPITAL U.S. CORPORATE HIGH YIELD INDEX AND THE CREDIT SUISSE LEVERAGED LOAN INDEX  
FROM INCEPTION OF THE FUND (8/31/09) THROUGH OCTOBER 31, 2011

**Average Annual Total Return**

1 Year	Since Inception
0.24%	(8/31/09)
	8.95%



\* Includes reinvestment of all distributions.

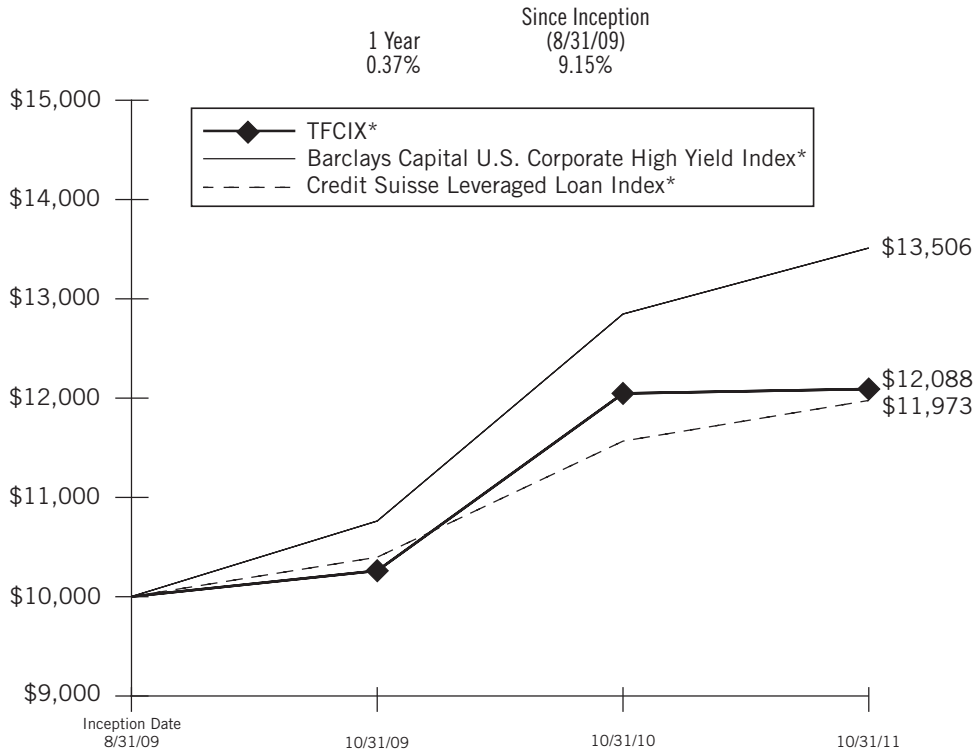
As with all mutual funds, past performance does not indicate future results. Performance may reflect fee waivers, expense offset arrangement and/or recovery. Total return would have been lower if the Adviser had not waived certain expenses. Conversely, total return would have been higher if the Adviser had not recovered previously waived expenses. Also, the returns shown in the graph and table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

**Third Avenue Trust**  
**Third Avenue Focused Credit Fund—Institutional Class**  
**Comparison of a \$10,000 Investment**  
**(Unaudited)**

**Performance Illustration**

COMPARISON OF CHANGE IN VALUE OF A \$10,000 INVESTMENT IN *THIRD AVENUE FOCUSED CREDIT FUND—INSTITUTIONAL CLASS (TFCIX)*,  
 THE BARCLAYS CAPITAL U.S. CORPORATE HIGH YIELD INDEX AND THE CREDIT SUISSE LEVERAGED LOAN INDEX  
 FROM INCEPTION OF THE FUND (8/31/09) THROUGH OCTOBER 31, 2011

**Average Annual Total Return**

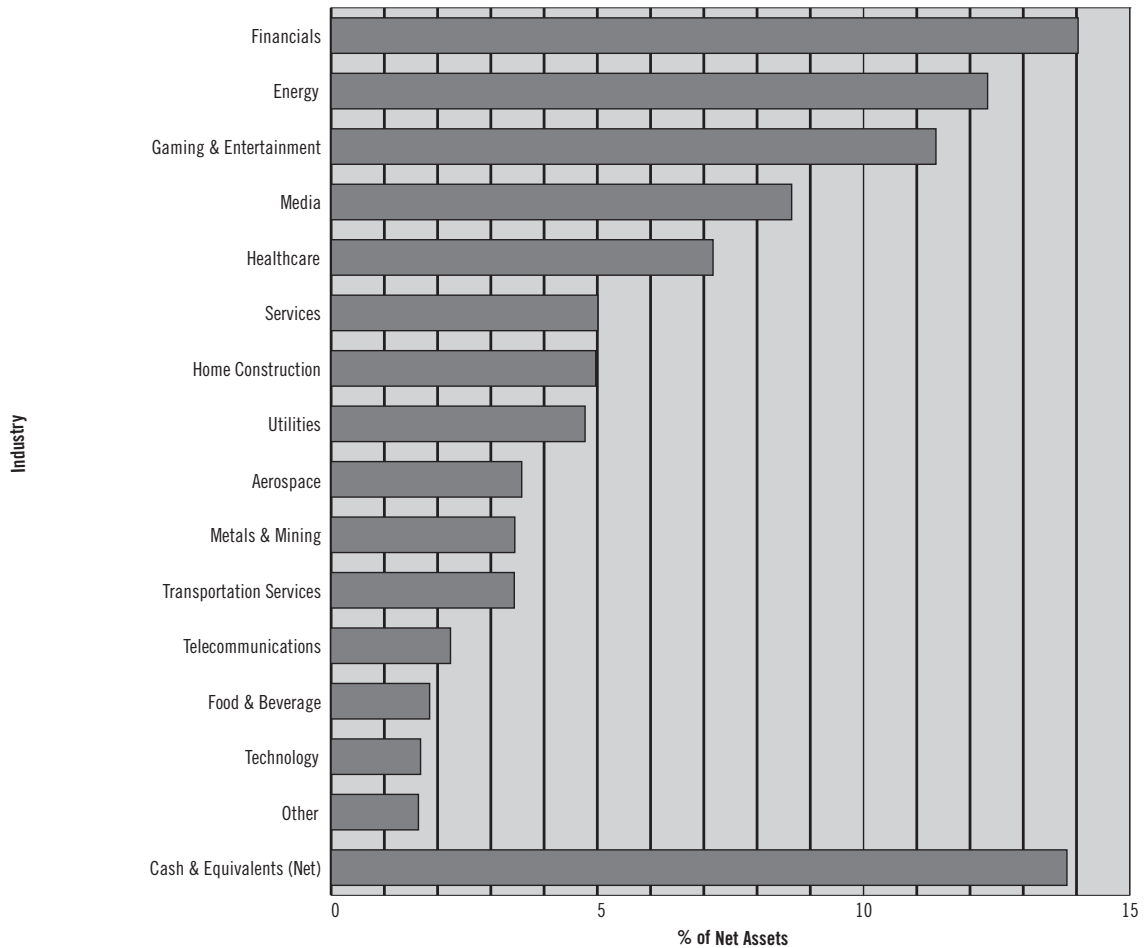


\* Includes reinvestment of all distributions.

As with all mutual funds, past performance does not indicate future results. Performance may reflect fee waivers, expense offset arrangement and/or recovery. Total return would have been lower if the Adviser had not waived certain expenses. Conversely, total return would have been higher if the Adviser had not recovered previously waived expenses. Also, the returns shown in the graph and table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

**Third Avenue Trust  
Third Avenue Focused Credit Fund  
Industry Diversification  
(Unaudited)**

The summary of the Fund's investments as of October 31, 2011 is as follows:



*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust**  
**Third Avenue Focused Credit Fund**  
**Portfolio of Investments**  
**at October 31, 2011**

Principal Amount †	Value (Note 1)	Principal Amount †	Value (Note 1)
<b>Corporate Debt Instruments - 78.61%</b>		<b>Financials - 11.95%</b>	
	<b>Aerospace - 2.59%</b>		Centro Properties Group (Australia):
	Aveos Fleet Performance, Inc. (Cayman Islands):	7,179,015	Term Loan A, 1.063%, due 12/15/11 (b) (i) \$ 4,208,698
2,574,468	Revolving Credit, 11.250%, due 3/12/13 (b) (d) (i) \$ 2,497,234	3,812,771 <sup>AUD</sup>	Term Loan A, 5.584%, due 12/15/11 (b) (i) 2,355,707
3,180,308	Term Loan, 11.250%, due 3/12/13 (b) (d) (i) 3,084,899	2,566,281	Term Loan B, 5.710%, due 12/15/11 (i) 1,504,483
6,977,623	Term Loan A2, PIK, 10.750%, due 3/12/15 (b) (d) (i) 6,838,071	81,900	Term Loan F, 1.063%, due 12/15/11 (b) (i) 48,014
6,800,924	Term Loan B, PIK, 10.750%, due 3/12/15 (b) (d) (i) 6,664,905	654,137 <sup>AUD</sup>	Term Loan F, 5.584%, due 12/15/11 (b) (i) 404,156
9,000,000	DAE Aviation Holdings, Inc., 11.250%, due 8/1/15 (a) 9,495,000	31,000,000	Lehman Brothers Holdings, Inc.*: due 9/26/08 7,788,750
	28,580,109	25,000,000	due 11/24/08 6,281,250
		97,000,000	due 3/23/09 (b) 24,371,250
17,000,000	<b>Consumer Products - 1.38%</b> Armored Autogroup, Inc., 9.250%, due 11/1/18 (a) 15,215,000	10,000,000	due 1/24/13 2,612,500
		50,000,000	due 9/26/14 13,000,000
		12,000,000	Marsico Holdings LLC/Marsico Co. Notes Corp., PIK, 10.625%, due 1/15/20 (a) 4,860,000
9,962,000	<b>Energy - 10.03%</b> Denbury Resources, Inc., 8.250%, due 2/15/20 11,057,820	54,113,352	Marsico Parent Co. LLC, Term Loan B, 5.250%, due 12/14/14 (b) (i) 24,441,215
15,000,000	Energy XXI Gulf Coast, Inc.: 9.250%, due 12/15/17 16,050,000		Nuveen Investments, Inc.: 10.500%, due 11/15/15 23,215,500
14,000,000	7.750%, due 6/15/19 14,210,000	23,100,000	10.500%, due 11/15/15 (a) 11,641,500
12,000,000	GMX Resources, Inc., 11.375%, due 2/15/19 (a) 8,700,000	11,700,000	Term Loan, 12.500%, due 7/31/15 (i) 5,109,688
22,068,000	Hercules Offshore, Inc., 10.500%, due 10/15/17 (a) 22,178,340	4,925,000	131,842,711
9,169,354	Platinum Energy Solutions, Inc.: 14.250%, due 3/1/15 9,008,890		<b>Food &amp; Beverage - 1.85%</b>
10,000,000	14.250%, due 3/1/15 (a) 9,750,000	9,945,000	Harmony Foods Corp., 10.000%, due 5/1/16 (a) 10,044,450
8,524,000	Stallion Oilfield Holdings, Ltd., 10.500%, due 2/15/15 9,163,300	10,000,000	Pinnacle Foods Finance LLC/ Pinnacle Foods Finance Corp., 9.250%, due 4/1/15 10,400,000
10,000,000	Trinidad Drilling, Ltd., 7.875%, due 1/15/19 (Canada) (a) 10,525,000		20,444,450
	110,643,350		

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust**  
**Third Avenue Focused Credit Fund**  
**Portfolio of Investments (continued)**  
**at October 31, 2011**

Principal Amount †		Value (Note 1)	Principal Amount †		Value (Note 1)
<b>Corporate Debt Instruments (continued)</b>			<b>Home Construction - 4.97%</b>		
	<b>Gaming &amp; Entertainment - 10.04%</b>		32,217,390	Ainsworth Lumber Co., Ltd., PIK, 11.000%, due 7/29/15 (Canada) (a)	\$ 21,746,738
49,511,000	Caesars Entertainment Operating Co., Inc., 12.750%, due 4/15/18	\$ 43,817,235	13,410,000	K. Hovnanian Enterprises, Inc., 10.625%, due 10/15/16	11,566,125
27,222,833	CityCenter Holdings LLC/CityCenter Finance Corp., PIK, 10.750%, due 1/15/17 (a)	28,175,632	21,841,000	Nortek, Inc., 10.000%, due 12/1/18 (a)	21,513,385
12,912,533	Hicks Sports Group LLC, Term Loan B, due 12/22/10* (b) (i)	8,522,272			<u>54,826,248</u>
8,850,000	Marina District Finance Co., Inc., 9.875%, due 8/15/18	8,783,625	<b>Media - 8.65%</b>		
15,000,000	MGM Resorts International, 7.500%, due 6/1/16	14,325,000	20,000,000	Clear Channel Communications, Inc.: 9.000%, due 3/1/21	17,900,000
13,399,000	Shingle Springs Tribal Gaming Authority, 9.375%, due 6/15/15 (a)	7,168,465	32,367,289	PIK, 11.000%, due 8/1/16	21,928,838
		<u>110,792,229</u>	7,000,000	Cumulus Media, Inc., 7.750%, due 5/1/19 (a)	6,475,000
			49,450,000	Intelsat Luxembourg SA, 11.250%, due 2/4/17 (Luxembourg)	49,202,750
	<b>Healthcare - 7.17%</b>				<u>95,506,588</u>
12,525,000	Biomet, Inc., PIK, 10.375%, due 10/15/17	13,589,625	<b>Metals &amp; Mining - 3.45%</b>		
13,000,000	HCA Inc., 8.000%, due 10/1/18	13,666,250	18,717,000	CEMEX España, 9.250%, due 5/12/20 (Luxembourg) <sup>3</sup> (a)	15,020,393
10,000,000	InVentiv Health, Inc., 10.000%, due 8/15/18 (a)	9,650,000	6,500,000 <sup>EUR</sup>	CEMEX Finance LLC, 9.625%, due 12/14/17 (a)	7,510,032
4,000,000	Kindred Healthcare, Inc., 8.250%, due 6/1/19 (a)	3,560,000	15,750,000	Murray Energy Corp., 10.250%, due 10/15/15 (a)	15,513,750
13,910,000	Multiplan, Inc., 9.875%, due 9/1/18 (a)	14,396,850			<u>38,044,175</u>
7,658,000	Rotech Healthcare, Inc.: 10.750%, due 10/15/15	7,428,260	<b>Paper &amp; Packaging - 0.26%</b>		
21,000,000	10.500%, due 3/15/18	16,800,000	3,000,000	Reynolds Group Issuer Inc. / Reynolds Group Issuer LLC, 9.000%, due 4/15/19 (a)	2,910,000
		<u>79,090,985</u>	11,000,000	<b>Services - 5.01%</b> EnergySolutions, Inc. / EnergySolutions LLC, 10.750%, due 8/15/18	11,165,000
			67,689,703	Koosharem Corp., Term Loan, 10.250%, due 6/30/14 (b) (f) (i)	44,167,531
					<u>55,332,531</u>

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust**  
**Third Avenue Focused Credit Fund**  
**Portfolio of Investments (continued)**  
**at October 31, 2011**

Principal Amount †		Value (Note 1)	Principal Amount (\$)		Value (Note 1)
<b>Corporate Debt Instruments (continued)</b>			<b>Municipal Bonds - 1.32%</b>		
	<b>Technology - 1.68%</b>			<b>Gaming &amp; Entertainment - 1.32%</b>	
18,250,000	EVERTEC, Inc., 11.000%, due 10/1/18	\$ 18,523,750		New York City, NY, Industrial Development Agency Civic Facility Revenue, Bronx Parking Development Co. LLC OID:	
	<b>Telecommunications - 2.25%</b>				
11,970,000	Digicel Group, Ltd. (Jamaica):	12,179,475	10,000,000	5.750%, due 10/1/27	\$ 5,301,600
6,150,000	8.875%, due 1/15/15 (a)	6,396,000	5,200,000	5.750%, due 10/1/37	2,756,364
6,000,000	EH Holding Corp., 7.625%, due 6/15/21 (a)	6,240,000	12,330,000	5.875%, due 10/1/46	6,534,777
		<u>24,815,475</u>		<b>Total Municipal Bonds</b>	
				(Cost \$16,193,445)	<u>14,592,741</u>
	<b>Transportation Services - 3.02%</b>			<b>Shares</b>	
32,645,000	General Maritime Corp., 12.000%, due 11/15/17 <sup>2</sup>	6,529,000		<b>Preferred Stocks - 2.78%</b>	
25,750,000	Swift Services Holdings, Inc., 10.000%, due 11/15/18	26,780,000		<b>Energy - 0.84%</b>	
		<u>33,309,000</u>	28,325	Energy XXI Bermuda Ltd., 5.625% (Bermuda)	<u>9,302,992</u>
	<b>Utilities - 4.31%</b>			<b>Financials - 1.94%</b>	
5,060,000	Dynegy Holdings LLC, 8.750%, due 2/15/12 (g)	4,187,150	280,000	Ally Financial Inc., Series A, 8.500% (b)	5,432,000
8,350,000	Energy Future Holdings Corp., 10.000%, due 1/15/20	8,767,500	500,000	Federal Home Loan Mortgage Corp., Series Z, 8.375% (b) (e)	1,101,250
	Texas Competitive Electric Holdings Co. LLC:		208,000	Federal National Mortgage Association, Series M, 4.750% (e)	501,800
5,995,000	11.500%, due 10/1/20 (a)	5,185,675	417,000	Federal National Mortgage Association, Series O, 7.000% (b) (e)	1,271,850
28,764,086	Non-Extended Term Loan:	21,680,930	500,000	Federal National Mortgage Association, Series S, 8.250% (b) (e)	1,006,250
47,699	3.742%, due 10/10/14 (i)	35,953	1,000,000	Federal National Mortgage Association, Series T, 8.250% (e)	2,000,000
10,257,687	3.772%, due 10/10/14 (i)	7,731,731	480,000	GMAC Capital Trust I, 8.125% (b)	10,060,800
		<u>47,588,939</u>		<b>Total Preferred Stocks</b>	<u>21,373,950</u>
	<b>Total Corporate Debt Instruments</b>	<u>867,465,540</u>		(Cost \$33,348,596)	<u>30,676,942</u>
	(Cost \$955,354,525)				

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust**  
**Third Avenue Focused Credit Fund**  
**Portfolio of Investments (continued)**  
**at October 31, 2011**

Shares		Value (Note 1)	Number of Contracts		Value (Note 1)
<b>Private Equities - 1.59%</b>			<b>Purchased Options - 0.33%</b>		
	<b>Aerospace - 0.99%</b>			<b>Equity Put Options - 0.33% (e)</b>	
573,251	Aveos Holding Co. (Cayman Islands) (d) (e)	\$ 10,891,763	1,000	Overseas Shipping Group, strike \$21, expires 1/21/12	\$ 865,000
	<b>Financials - 0.14%</b>		1,500	Overseas Shipping Group, strike \$26, expires 1/21/12	2,055,000
4,568,957	Cerberus CG Investor I LLC (e)	639,654	2,000	Overseas Shipping Group, strike \$13, expires 4/21/12	730,000
4,568,918	Cerberus CG Investor II LLC (e)	639,649			
2,284,632	Cerberus CG Investor III LLC (e)	319,848			
		<u>1,599,151</u>		<b>Total Purchased Options</b> (Cost \$1,619,092)	<u>3,650,000</u>
	<b>Utilities - 0.46%</b>			<b>Total Investment</b> <b>Portfolio - 86.51%</b> (Cost \$1,035,839,509)	954,654,652
14,474	Bosque LLP (c) (e)	5,065,900		<b>Other Assets less</b> <b>Liabilities - 13.49% (h)</b>	<u>148,909,590</u>
	<b>Total Private Equities</b> (Cost \$14,555,328)	<u>17,556,814</u>		<b>NET ASSETS - 100.00%</b>	<u><u>\$1,103,564,242</u></u>
<b>Shares or Units</b>					
<b>Common Stocks &amp; Warrants - 1.88%</b>					
	<b>Energy - 1.46%</b>				
448,352	Compton Petroleum Corp. (Canada) (e)	2,811,337			
45,681	Compton Petroleum Corp. Warrants, expires 8/23/14 (Canada) (e)	190,194			
25	Platinum Energy Solutions, Inc. Units (c) (e) (j) (k)	11,589,000			
8,500	Platinum Energy Solutions, Inc. Warrants, expires 12/31/11 (c) (e)	1,530,000			
		<u>16,120,531</u>			
	<b>Transportation Services - 0.42%</b>				
718,636	Scorpio Tankers, Inc. (Monaco) <sup>2</sup> (e)	4,592,084			
	<b>Total Common Stocks &amp; Warrants</b> (Cost \$14,768,523)	<u>20,712,615</u>			

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust  
Third Avenue Focused Credit Fund  
Portfolio of Investments (continued)  
at October 31, 2011**

Notes:

AUD: Australian Dollar.

EUR: Euro.

PIK: Payment-in-kind.

OID: Original Issue Discount.

(a) Security is exempt from registration under Rule 144A of the Securities Act of 1933. This security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.

(b) Variable rate security. The rate disclosed is in effect as of October 31, 2011.

(c) Fair-valued security.

(d) Affiliated issuers - as defined under the Investment Company Act of 1940 (ownership of 5% or more of the outstanding voting securities of these issuers).

(e) Non-income producing security.

(f) Includes 86,558 common stock warrants and 10,866 common stock Series A warrants.

(g) Issuer filed for bankruptcy on 11/7/11.

(h) Includes \$340,000 of cash restricted as collateral for forward foreign currency contracts to broker.

(i) Term loans: See Note 1.

(j) Restricted security subject to restrictions on resale.

Country Concentration

	% of Net Assets
United States	71.06%
Luxembourg	5.82
Canada	3.20
Cayman Islands	2.72
Jamaica	1.68
Bermuda	0.84
Australia	0.77
Monaco	0.42
Total	<u>86.51%</u>

Acquisition Units	Issuer	Acquisition Date	Acquisition Cost	10/31/11 Carrying Value Per Unit
25	Platinum Energy Solutions, Inc. Units	2/28/11	\$2,500,000	\$463,560.00

At October 31, 2011, the restricted security had a total market value of \$11,589,000 or 1.05% of net assets of the Fund.

(k) Includes 6,185,600 shares of common stock and 2,500 shares of preferred stock.

\* Issuer in default.

† Denominated in U.S. Dollars unless otherwise noted.

<sup>1</sup> Incorporated in Bermuda.

<sup>2</sup> Incorporated in Marshall Islands.

<sup>3</sup> Incorporated in Spain.

**Schedule of Forward Foreign Currency Contracts**

Contracts to Sell	Currency	Counterparty	Settlement Date	Settlement Value	Value at 10/31/11	Unrealized Depreciation
4,000,000	Euro	JPMorgan Chase Bank N.A.	10/3/12	\$5,422,400	\$5,530,756	\$(108,356)
1,000,000	Euro	JPMorgan Chase Bank N.A.	10/9/12	1,336,400	1,382,680	(46,280)
						<u>\$(154,636)</u>

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust**  
**Third Avenue Focused Credit Fund**  
**Statement of Assets and Liabilities**  
**October 31, 2011**

**Assets:**

Investments at value (Notes 1 and 5)	
Unaffiliated issuers (cost of \$1,008,740,385)	\$ 924,677,780
Affiliated issuers (cost of \$27,099,124)	29,976,872
Total investments (cost of \$1,035,839,509)	<u>954,654,652</u>
Cash	105,939,655
Restricted cash pledged to counterparty for collateral management	4,990,000
Foreign currency at value (cost of \$214,786)	213,795
Dividends and interest receivable	21,570,057
Receivable for securities sold	17,998,576
Receivable for fund shares sold	3,582,326
Other assets	80,480
Other receivables	9,979
Total assets	<u>1,109,039,520</u>

**Liabilities:**

Payable for fund shares redeemed	1,712,957
Payable for securities purchased	1,603,028
Distribution fees payable (Note 6)	951,925
Payable to investment adviser (Note 3)	662,413
Accrued expenses	255,727
Unrealized depreciation for forward foreign currency contracts	154,636
Payable for shareholder servicing fees (Note 3)	126,514
Payable to trustees and officers	8,078
Total liabilities	<u>5,475,278</u>
Net assets	<u>\$1,103,564,242</u>

**Summary of net assets:**

Capital stock, \$0.001 par value	\$1,123,156,007
Accumulated undistributed net investment income	20,240,827
Accumulated undistributed net realized gain on investments and foreign currency transactions	41,500,859
Net unrealized depreciation of investments and translation of foreign currency denominated assets and liabilities	(81,333,451)
Net assets applicable to capital shares outstanding	<u>\$1,103,564,242</u>

**Investor Class:**

Net assets applicable to 32,167,507 shares outstanding, unlimited number of shares authorized	<u>\$ 338,097,601</u>
Net asset value, offering and redemption price per share	<u>\$10.51</u>

**Institutional Class:**

Net assets applicable to 72,882,095 shares outstanding, unlimited number of shares authorized	<u>\$ 765,466,641</u>
Net asset value, offering and redemption price per share	<u>\$10.50</u>

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust**  
**Third Avenue Focused Credit Fund**  
**Statement of Operations**  
**For the Year Ended October 31, 2011**

**Investment Income:**

Interest - unaffiliated issuers .....	\$ 95,168,517
Interest - affiliated issuers (Note 5) .....	1,415,619
Dividends .....	1,585,956
Other income .....	70,534
Total investment income .....	98,240,626

**Expenses:**

Investment advisory fees (Note 3) .....	8,376,215
Distribution fees (Note 6) .....	798,065
Shareholder servicing fees (Note 3) .....	729,788
Transfer agent fees .....	271,252
Accounting fees .....	175,924
Legal fees .....	160,323
Reports to shareholders .....	134,670
Registration and filing fees .....	99,840
Trustees' and officers' fees and expenses .....	96,978
Auditing fees .....	91,116
Administration fees (Note 3) .....	59,405
Custodian fees .....	29,304
Insurance expenses .....	24,069
Miscellaneous expenses .....	24,003
Total expenses .....	11,070,952
Expenses reduced by custodian fee expense offset arrangement (Note 3) .....	(18,704)
Net expenses .....	11,052,248
Net investment income .....	87,188,378

**Realized and unrealized gain (loss) on investments and foreign currency transactions :**

Net realized gain on investments - unaffiliated issuers .....	41,773,493
Net realized loss on investments - affiliated issuers .....	(229,000)
Net realized loss on foreign currency transactions .....	(402,941)
Net change in unrealized appreciation/(depreciation) on investments and unfunded commitments .....	(133,019,229)
Net change in unrealized appreciation/(depreciation) on translation of other assets and liabilities denominated in foreign currency .....	(145,458)
Net loss on investments and foreign currency transactions .....	(92,023,135)
<b>Net decrease in net assets resulting from operations .....</b>	<b>\$ (4,834,757)</b>

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust**  
**Third Avenue Focused Credit Fund**  
**Statement of Changes in Net Assets**

	<b>For the Year Ended October 31, 2011</b>	<b>For the Period Ended October 31, 2010</b>
<b>Operations:</b>		
Net investment income .....	\$ 87,188,378	\$ 55,681,475
Net realized gain on investments - unaffiliated issuers .....	41,773,493	7,811,200
Net realized loss on investments - affiliated issuers .....	(229,000)	—
Net realized gain (loss) on foreign currency transactions .....	(402,941)	62,700
Net change in unrealized appreciation/(depreciation) on investments and unfunded commitments .....	(133,019,229)	49,190,689
Net change in unrealized appreciation/(depreciation) on translation of other assets and liabilities denominated in foreign currency .....	(145,458)	(3,136)
Net increase (decrease) in net assets resulting from operations .....	<u>(4,834,757)</u>	<u>112,742,928</u>
<b>Dividends and Distributions to Shareholders from:</b>		
Net investment income:		
Investor Class .....	(22,349,140)	(11,363,722)
Institutional Class .....	(57,219,166)	(31,228,982)
Net realized gains:		
Investor Class .....	(2,378,123)	(70,638)
Institutional Class .....	(7,065,161)	(155,374)
Decrease in net assets from dividends and distributions .....	<u>(89,011,590)</u>	<u>(42,818,716)</u>
<b>Capital Share Transactions:</b>		
Proceeds from sale of shares .....	615,362,700	752,871,390
Net asset value of shares issued in reinvestment of dividends and distributions .....	75,295,393	37,938,122
Redemption fees .....	289,629	695,630
Cost of shares redeemed .....	(502,178,413)	(135,626,872)
Net increase in net assets resulting from capital share transactions .....	<u>188,769,309</u>	<u>655,878,270</u>
Net increase in net assets .....	94,922,962	725,802,482
Net assets at beginning of year .....	<u>1,008,641,280</u>	<u>282,838,798</u>
Net assets at end of year (including accumulated undistributed net investment income of \$20,240,827 and \$12,983,172, respectively) .....	<u>\$1,103,564,242</u>	<u>\$1,008,641,280</u>

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust  
Third Avenue Focused Credit Fund  
Financial Highlights**

Selected data (for a share outstanding throughout each period) and ratios are as follows:

<b>Investor Class:</b>	<b>For the Year Ended October 31, 2011</b>	<b>For the Year Ended October 31, 2010</b>	<b>For the Period Ended October 31, 2009 *</b>
Net asset value, beginning of period . . . . .	<u>\$11.36</u>	<u>\$10.25</u>	<u>\$10.00</u>
Income (loss) from investment operations:			
Net investment income <sup>®</sup> . . . . .	0.85	0.83	0.07
Net gain/(loss) on investment transactions (both realized and unrealized) . . . . .	<u>(0.81)<sup>2</sup></u>	<u>0.89<sup>3</sup></u>	<u>0.18<sup>1</sup></u>
Total from investment operations . . . . .	<u>0.04</u>	<u>1.72</u>	<u>0.25</u>
Less dividends and distributions to shareholders:			
Dividends from net investment income . . . . .	(0.79)	(0.60)	—
Distributions from realized gains . . . . .	<u>(0.10)</u>	<u>(0.01)</u>	—
Total dividends and distributions . . . . .	<u>(0.89)</u>	<u>(0.61)</u>	—
Net asset value, end of period . . . . .	<u>\$10.51</u>	<u>\$11.36</u>	<u>\$10.25</u>
Total return <sup>4</sup> . . . . .	0.24%	17.19%	2.50% <sup>5</sup>
Ratios/Supplemental Data:			
Net assets, end of period (in thousands) . . . . .	\$338,098	\$248,975	\$90,913
Ratio of expenses to average net assets			
Before fee waivers/expense offset arrangement/recovery . . . . .	1.18%	1.20%	1.53% <sup>6</sup>
After fee waivers/expense offset arrangement/recovery <sup>7</sup> . . . . .	1.18%	1.21% <sup>8</sup>	1.40% <sup>6#</sup>
Ratio of net investment income to average net assets . . . . .	7.64%	7.69%	4.18% <sup>6</sup>
Portfolio turnover rate . . . . .	105%	129%	12% <sup>5</sup>

<sup>1</sup> Includes redemption fees of less than \$0.01 per share.

<sup>2</sup> Includes redemption fees of \$0.01 per share.

<sup>3</sup> Includes redemption fees of \$0.02 per share.

<sup>4</sup> Performance figures may reflect fee waivers, expense offset arrangement and/or recovery of previously waived fees. Past performance is no guarantee of future results. Total return would have been lower if the Adviser had not waived certain expenses. Conversely, total return would have been higher if the Adviser had not recovered previously waived expenses.

<sup>5</sup> Not annualized.

<sup>6</sup> Annualized.

<sup>7</sup> As a result of a expense limitation, the ratio of expenses (exclusive of taxes, interest, brokerage commissions, acquired fund fees and expenses, and extraordinary items) to average net assets will not exceed 1.40%. Effective March 1, 2011, the expense limitation has been reduced to 1.20%.

<sup>8</sup> The investment adviser recovered previously waived fees.

# The investment adviser waived a portion of its fees.

\* Period from August 31, 2009 (commencement of operations) to October 31, 2009.

® Calculated based on the average number of shares outstanding during the period.

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust**  
**Third Avenue Focused Credit Fund**  
**Financial Highlights (continued)**

Selected data (for a share outstanding throughout each period) and ratios are as follows:

<b>Institutional Class:</b>	<b>For the Year Ended October 31, 2011</b>	<b>For the Year Ended October 31, 2010</b>	<b>For the Period Ended October 31, 2009 *</b>
Net asset value, beginning of period	\$11.36	\$10.26	\$10.00
Income (loss) from investment operations:			
Net investment income <sup>®</sup>	0.88	0.86	0.08
Net gain/(loss) on investment transactions (both realized and unrealized)	(0.83) <sup>1</sup>	0.87 <sup>1</sup>	0.18
Total from investment operations	0.05	1.73	0.26
Less dividends and distributions to shareholders:			
Dividends from net investment income	(0.81)	(0.62)	—
Distributions from realized gains	(0.10)	(0.01)	—
Total dividends and distributions	(0.91)	(0.63)	—
Net asset value, end of period	<u>\$10.50</u>	<u>\$11.36</u>	<u>\$10.26</u>
Total return <sup>2</sup>	0.37%	17.38%	2.60% <sup>3</sup>
Ratios/Supplemental Data:			
Net assets, end of period (in thousands)	\$765,467	\$759,666	\$191,926
Ratio of expenses to average net assets			
Before fee waivers/expense offset arrangement/recovery	0.92%	0.93%	1.18% <sup>4</sup>
After fee waivers/expense offset arrangement/recovery <sup>5</sup>	0.92%	0.94% <sup>6</sup>	0.95% <sup>4#</sup>
Ratio of net investment income to average net assets	7.87%	7.99%	4.59% <sup>4</sup>
Portfolio turnover rate	105%	129%	12% <sup>3</sup>

<sup>1</sup> Includes redemption fees of less than \$0.01 per share.

<sup>2</sup> Performance figures may reflect fee waivers, expense offset arrangement and/or recovery of previously waived fees. Past performance is no guarantee of future results. Total return would have been lower if the Adviser had not waived certain expenses. Conversely, total return would have been higher if the Adviser had not recovered previously waived expenses.

<sup>3</sup> Not annualized.

<sup>4</sup> Annualized.

<sup>5</sup> As a result of a expense limitation, the ratio of expenses (exclusive of taxes, interest, brokerage commissions, acquired fund fees and expenses, and extraordinary items) to average net assets will not exceed 0.95%.

<sup>6</sup> The investment adviser recovered previously waived fees.

<sup>#</sup> The investment adviser waived a portion of its fees.

\* Period from August 31, 2009 (commencement of operations) to October 31, 2009.

<sup>®</sup> Calculated based on the average number of shares outstanding during the period.

*The accompanying notes are an integral part of the financial statements.*

**Third Avenue Trust**  
**Notes to Financial Statements**  
**October 31, 2011**

**1. SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Organization:**

Third Avenue Trust (the “Trust”) is an open-end, management investment company organized as a Delaware business trust pursuant to a Trust Instrument dated October 31, 1996. The Trust currently consists of five non-diversified (within the meaning of Section 5(b)(2) of the Investment Company Act), separate investment series: Third Avenue Value Fund, Third Avenue Small-Cap Value Fund, Third Avenue Real Estate Value Fund, Third Avenue International Value Fund and Third Avenue Focused Credit Fund (each a “Fund” and, collectively, the “Funds”). Third Avenue Management LLC (the “Adviser”) provides investment advisory services to each of the Funds in the Trust. The Funds seek to achieve their investment objectives by adhering to a strict value discipline when selecting securities. Each Fund has a distinct investment approach.

Third Avenue Value Fund seeks to achieve its objective mainly by acquiring common stocks of well-financed companies (meaning companies with high quality assets and a relative absence of liabilities) at a discount to what the Adviser believes is their intrinsic value. The Fund may invest in companies of any market capitalization. The Fund also seeks to acquire senior securities, such as debt instruments (including high-yield and distressed securities that may be in default and may have any or no credit rating) that the Adviser believes are undervalued. The Fund also invests in both domestic and foreign securities.

Third Avenue Small-Cap Value Fund seeks to achieve its objective mainly by acquiring equity securities, including common stocks and convertible securities, of well-financed small companies (meaning companies with high quality assets and a relative absence of liabilities) at a discount to what the Adviser believes is their intrinsic value. The Fund may also acquire senior securities, such as preferred stocks and debt instruments (including high-yield and distressed securities that may be in default and may have any or no credit rating) that the Adviser believes are undervalued. Under normal circumstances, the Fund expects to invest at least 80% of its assets (plus the amount of any borrowing for investment purposes) in securities of companies that are considered small. The Fund considers a “small company” to be one whose market capitalization is within the range of capitalizations during the most recent 12-month period of companies in the Russell 2000 Index, the S&P Small Cap 600 Index or the Dow Jones Wilshire U.S. Small-Cap Index at the time of investment (based on month-end data). The Fund also invests in both domestic and foreign securities.

Third Avenue Real Estate Value Fund, under normal circumstances, seeks to achieve its objective mainly by investing at least 80% of its assets (plus the amount of any borrowing for investment purposes) in securities of real estate and real estate-related companies, or in companies which own significant real estate assets at the time of investment (“real estate companies”). These securities will primarily be equity securities (which may include both common and preferred stocks, and convertible securities) of well-financed real estate companies (meaning companies with high quality assets and a relative absence of liabilities) of any market capitalization. The Fund seeks to acquire these securities at a discount to what the Adviser believes is their intrinsic value. The Fund may also acquire senior securities, such as preferred stocks and debt instruments (including high-yield and distressed securities that may be in default and may have any or no credit rating) that the Adviser believes are undervalued. The Fund also invests in both domestic and foreign securities.

**Third Avenue Trust**  
**Notes to Financial Statements (continued)**  
**October 31, 2011**

Third Avenue International Value Fund seeks to achieve its objective mainly by acquiring equity securities, including common stocks and convertible securities, of well-financed companies (meaning companies with high quality assets and a relative absence of liabilities) located outside of the United States. While the Fund may invest in companies located anywhere in the world, it currently expects that most of its assets will be invested in the more developed countries, and under normal circumstances, at least 80% of its assets (plus the amount of any borrowing for investment purposes) will be invested in securities of issuers located outside of the United States at the time of investment. The Fund may also acquire senior securities, such as preferred stocks and debt instruments (including high-yield and distressed securities that may be in default and may have any or no credit rating) that the Adviser believes are undervalued.

Third Avenue Focused Credit Fund, under normal circumstances, seeks to achieve its objective mainly by investing at least 80% of the Fund's net assets (plus the amount of any borrowing for investment purposes) in bonds and other types of credit instruments. The Fund intends to invest a substantial amount of its assets in credit instruments that are rated below investment grade by some or all relevant independent rating agencies, including Moody's Investors Service, Standard & Poor's Rating Service and Fitch Rating Service. Credit instruments include high-yield bonds (commonly known as "junk bonds" or "junk debt"), bank debt, convertible bonds or preferred stock, loans made to bankrupt companies (including debor-in-possession loans), loans made to refinance distressed companies and other types of debt instruments. In making these investments, the Adviser will seek to purchase instruments that the Adviser believes are undervalued. The Fund may have significant investments in distressed and defaulted securities and intends to focus on a relatively small number of issuers. The Fund may also purchase equity securities or hold positions in equity or other assets that the Fund receives as part of a reorganization process, and may hold those assets until such time as the Adviser believes that a disposition is most advantageous.

Because of the Funds' disciplined and deliberate investing approach, there may be times when the Funds will have significant cash positions. A substantial cash position can adversely impact Fund performance in certain market conditions, and may make it more difficult for a Fund to achieve its investment objective.

**Accounting policies:**

The policies described below are followed consistently by the Funds in the preparation of their financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

**Security valuation:**

Generally, the Funds' investments are valued at market value. Securities traded on a principal stock exchange, including The NASDAQ Stock Market, Inc. ("NASDAQ"), are valued at the last quoted sales price, the NASDAQ official closing price, or in the absence of closing sales prices on that day, securities are valued at the mean between the closing bid and asked price. In accordance with procedures approved by the Trust's Board of Trustees (the "Board"), the Funds have retained a third party provider that, under certain circumstances, applies a statistical model to provide fair value

**Third Avenue Trust**  
**Notes to Financial Statements (continued)**  
**October 31, 2011**

pricing for foreign equity securities with principal markets that are no longer open when a Fund calculates its NAV, and certain events have occurred after the principal markets have closed but prior to the time as of which the Funds compute their net asset values. Debt instruments with maturities greater than 60 days, including floating rate loan securities, are valued on the basis of prices obtained from a pricing service approved as reliable by the Board or otherwise pursuant to policies and procedures approved by the Board. Temporary cash investments are valued at cost, plus accrued interest, which approximates market value. Short-term debt securities with 60 days or less to maturity may be valued at amortized cost.

Each Fund may invest up to 15% of its total net assets in securities which are not readily marketable, including those which are restricted as to disposition under applicable securities laws (“restricted securities”). Restricted securities and other securities and assets for which market quotations are not readily available are valued at “fair value”, as determined in good faith by the Trust’s Valuation Committee as authorized by the Board of the Trust, under procedures established by the Board. At October 31, 2011, such securities had a total fair value of \$90,534,576 or 2.60% of net assets of Third Avenue Value Fund, \$10,543,455 or 1.31% of net assets of Third Avenue Small-Cap Value Fund, \$41,867,904 or 2.57% of net assets of Third Avenue Real Estate Value Fund, \$4,618,680 or 0.36% of net assets of Third Avenue International Value Fund and \$18,184,900 or 1.65% of net assets of Third Avenue Focused Credit Fund. Among the factors considered by the Trust’s Valuation Committee in determining fair value are: the type of security, trading in unrestricted securities of the same issuer, the financial condition of the issuer, the percentage of the Fund’s beneficial ownership of the issuer’s common stock and debt securities, the operating results of the issuer and the discount from market value of any similar unrestricted securities of the issuer at the time of purchase and liquidation values of the issuer. The fair values determined in accordance with these procedures may differ significantly from the amounts which would be realized upon disposition of the securities. Restricted securities often have costs associated with subsequent registration. The restricted securities currently held by the Funds are not expected to incur any material future registration costs.

**Fair Value Measurements:**

In accordance with Financial Accounting Standards Board Accounting Standard Codification (“FASB ASC”) FASB ASC 820-10, *Fair Value Measurements and Disclosures*, the Funds disclose the fair value of their investments in a hierarchy that prioritizes the inputs to valuation techniques used to measure the fair value. Fair value is defined as the price that a Fund would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment under current market conditions. The hierarchy gives the highest priority to valuations based upon unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to valuations based upon unobservable inputs that are significant to the valuation (level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 — Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access at the measurement date;

**Third Avenue Trust**  
**Notes to Financial Statements (continued)**  
**October 31, 2011**

- Level 2 — Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;
- Level 3 — Significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input both individually and in aggregate that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Fund. The Fund considers observable data to be market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The Fund uses valuation techniques to measure fair value that are consistent with the market approach and/or income approach, depending on the type of security and the particular circumstance. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable securities. The income approach uses valuation techniques to discount estimated future cash flows to present value.

The following are certain inputs and techniques that the Funds generally use to evaluate how to classify each major category of assets and liabilities for Level 2 and Level 3, in accordance with GAAP.

Equity Securities (Common and Preferred Stock)—Equity securities traded in inactive markets and certain foreign equity securities are valued using inputs which include broker-dealer quotes, recently executed transactions adjusted for changes in the benchmark index, or evaluated price quotes received from independent pricing services that take into account the integrity of the market sector and issuer, the individual characteristics of the security, and information received from broker-dealers and other market sources pertaining to the issuer or security. To the extent that these inputs are observable, the values of equity securities are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

U.S. Treasury Obligations—U.S. Treasury obligations are valued by independent pricing services based on pricing models that evaluate the mean between the most recently quoted bid and ask price. The models also take into consideration data received from active market makers and broker-dealers, yield curves, and the spread over comparable U.S. Treasury issues. The spreads change daily in response to market conditions and are generally obtained from the new issue market and broker-dealer sources. To the extent that these inputs are observable, the values of U.S. Treasury obligations are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

**Third Avenue Trust**  
**Notes to Financial Statements (continued)**  
**October 31, 2011**

Corporate Bonds & Notes—Corporate bonds and notes are generally comprised of two main categories: investment grade bonds and high yield bonds. Investment grade bonds are valued by independent pricing services using various inputs and techniques, which include broker-dealer quotations, live trading levels, recently executed transactions in securities of the issuer or comparable issuers, and option adjusted spread models that include base curve and spread curve inputs. Adjustments to individual bonds can be applied to recognize trading differences compared to other bonds issued by the same issuer. High yield bonds are valued by independent pricing services based primarily on broker-dealer quotations from relevant market makers and recently executed transactions in securities of the issuer or comparable issuers. The broker-dealer quotations received are supported by credit analysis of the issuer that takes into consideration credit quality assessments, daily trading activity, and the activity of the underlying equities, listed bonds and sector specific trends. To the extent that these inputs are observable, the values of corporate bonds and notes are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

Forward Foreign Currency Contracts—Forward foreign currency contracts are valued by independent pricing services using various inputs and techniques, which include broker-dealer quotations, actual trading information and foreign currency exchange rates gathered from leading market makers and foreign currency exchange trading centers throughout the world. To the extent that these inputs are observable, the values of forward foreign currency contracts are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

Term Loans—Term Loans are valued by independent pricing services based on the average of quoted prices received from multiple dealers or valued relative to other benchmark securities when broker-dealer quotes are unavailable. To the extent that these inputs are observable, the values of Term Loans are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

Municipal Bonds—Municipal bonds and notes are valued by independent pricing services based on pricing models that take into account, among other factors, information received from market makers and broker-dealers, current trades, bid-ask lists, offerings, market movements, the callability of the bond, state of issuance, benchmark yield curves, and bond insurance. To the extent that these inputs are observable, the values of municipal bonds and notes are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

Options—Options are valued by independent pricing services or by brokers based on pricing models that take into account, among other factors, changes in the price of the underlying securities, time until expiration, and volatility of the underlying security. To the extent that these inputs are observable, the values of options are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

**Third Avenue Trust**  
**Notes to Financial Statements (continued)**  
**October 31, 2011**

The following is a summary by level of inputs used to value the Funds' investments as of October 31, 2011:

	<u>Third Avenue Value Fund</u>	<u>Third Avenue Small-Cap Value Fund</u>	<u>Third Avenue Real Estate Value Fund</u>	<u>Third Avenue International Value Fund</u>	<u>Third Avenue Focused Credit Fund</u>
<b>Level 1: Quoted Prices†</b>					
<b>Investments in Securities:</b>					
<b>Common Stock &amp; Warrants:</b>					
Agriculture	\$ —	\$ 25,772,101	\$ —	\$ 69,597,787	\$ —
Annuities & Mutual Fund					
Management & Sales	127,680,000	—	—	—	—
Auto Supply	—	7,450,706	—	—	—
Building & Construction					
Products/Services	—	—	—	5,340,751	—
Chemical & Allied Products	—	33,557,129	—	—	—
Computer Peripherals	—	16,310,981	—	—	—
Consulting and Information					
Technology Services	—	26,415,562	—	—	—
Consumer Products	—	11,314,520	—	—	—
Depository Institutions	70,687,400	—	—	—	—
Diversified Operations	164,717,013	—	—	—	—
Electronics Components	—	54,859,595	—	—	—
Energy	—	—	—	—	3,001,531
Energy/Services	—	57,749,762	—	—	—
Forest Products & Paper	—	22,889,958	49,464,023	40,742,374	—
Healthcare Services	—	37,765,781	—	—	—
Holding Companies	7,337,394	12,194,020	—	44,114,101	—
Industrial Equipment	—	19,405,838	—	—	—
Industrial Services	—	10,959,174	—	—	—
Insurance	—	—	—	33,063,240	—
Insurance & Reinsurance	—	40,305,012	—	—	—
Life Insurance	—	3,661,103	—	—	—
Media	—	33,882,114	—	—	—
Metals & Mining	—	—	—	70,173,720	—
Metals Manufacturing	—	31,735,266	—	—	—
Mutual Holding Companies	8,937,109	—	—	—	—
Non-U.S. Real Estate Operating					
Companies	—	—	92,735,960	—	—
Oil & Gas	—	3,733,184	—	—	—
Oil & Gas Production & Services	95,012,592	—	—	34,314,846	—
Retail	—	13,155,655	—	—	—
Retail-Building Products	—	—	60,411,480	—	—
Securities Trading Services	—	22,534,886	—	—	—

**Third Avenue Trust**  
**Notes to Financial Statements (continued)**  
**October 31, 2011**

	<u>Third Avenue Value Fund</u>	<u>Third Avenue Small-Cap Value Fund</u>	<u>Third Avenue Real Estate Value Fund</u>	<u>Third Avenue International Value Fund</u>	<u>Third Avenue Focused Credit Fund</u>
<b>Level 1 (continued)</b>					
Semiconductor Equipment Manufacturers & Related	\$ 24,640,000	\$ 3,666,439	\$ —	\$ —	\$ —
Software	—	1,225,753	—	—	—
Steel & Specialty Steel	300,720,000	—	—	—	—
Telecommunications	79,313,757	12,574,071	—	—	—
Transportation Services	—	—	—	—	4,592,084
U.S. Homebuilder	—	—	38,857,306	—	—
U.S. Real Estate Investment Trusts	—	2,184,777	112,527,569	—	—
U.S. Real Estate Operating Companies	209,088,177	48,684,483	179,095,155	—	—
Utilities, Utility Service Companies & Waste Management	129,255,593	—	—	—	—
<b>Limited Partnerships:</b>					
Infrastructure	10,036,000	—	—	—	—
<b>Preferred Stocks:</b>					
Financials	—	—	—	—	21,373,950
Insurance & Reinsurance	8,426	—	—	—	—
<b>Purchased Options:</b>					
Equity Put Options	—	—	—	—	3,650,000
<b>Total for Level 1 Securities</b>	<u>1,227,433,461</u>	<u>553,987,870</u>	<u>533,091,493</u>	<u>297,346,819</u>	<u>32,617,565</u>
<b>Level 2: Other Significant Observable Inputs†</b>					
<b>Investments in Securities:</b>					
<b>Common Stocks:</b>					
Advertising	—	—	—	30,226,164	—
Automotive	156,884,351	—	—	12,067,338	—
Building & Construction Products/Services	—	—	—	21,993,782	—
Capital Goods	—	—	—	30,805,658	—
Chemical & Allied Products	—	30,712,841	—	—	—
Corporate Services	—	—	—	9,565,829	—
Depository Institutions	20,293,472	—	—	—	—
Diversified Operations	236,345,239	—	—	65,657,455	—
Electronics Components	—	—	—	92,500,422	—
Forest Products & Paper	—	—	—	16,323,873	—
Holding Companies	735,509,436	44,210,745	—	89,800,327	—
Industrial Equipment	—	12,196,413	—	—	—
Insurance	—	—	—	112,370,462	—
Investment Companies	—	—	—	56,971,735	—
Machinery	—	—	—	14,502,821	—
Media	—	—	—	5,597,070	—
Non-U.S. Homebuilder	—	—	98,714,292	—	—

**Third Avenue Trust**  
**Notes to Financial Statements (continued)**  
**October 31, 2011**

	<u>Third Avenue Value Fund</u>	<u>Third Avenue Small-Cap Value Fund</u>	<u>Third Avenue Real Estate Value Fund</u>	<u>Third Avenue International Value Fund</u>	<u>Third Avenue Focused Credit Fund</u>
<b>Level 2 (continued)</b>					
Non-U.S. Real Estate					
Consulting/Management	\$ —	\$ —	\$ 16,486,639	\$ —	\$ —
Non-U.S. Real Estate Investment Trusts	—	7,598,251	272,775,577	—	—
Non-U.S. Real Estate Operating Companies	792,367,058	—	479,125,928	—	—
Oil & Gas Production & Services	—	—	—	11,417,815	—
Other Financial	—	—	—	35,679,188	—
Pharmaceuticals	—	—	—	63,450,631	—
Real Estate	—	—	—	112,697,312	—
Telecommunications	—	—	—	72,966,958	—
Transportation	—	—	—	25,140,523	—
U.S. Real Estate Operating Companies	—	—	42,794,054	—	—
<b>Debt Securities issued by the U.S.</b>					
<b>Treasury and other government corporations and agencies:</b>					
<b>Municipal Bonds<sup>#</sup></b>	—	—	—	—	14,592,741
<b>Corporate Debt Instruments<sup>#</sup></b>	68,315,000	—	9,763,500	—	728,170,053
<b>Term Loans<sup>#</sup></b>	—	—	—	—	111,688,106
<b>Preferred Stocks:</b>					
Energy	—	—	—	—	9,302,992
<b>Purchased Options:</b>					
Foreign Currency Put Options	—	866,643	—	15,303,807	—
Index Call Options	—	—	16,665,897	—	—
<b>Purchased Swaptions:</b>					
Foreign Currency Put Swaptions	—	67,730	—	—	—

**Third Avenue Trust**  
**Notes to Financial Statements (continued)**  
**October 31, 2011**

	<u>Third Avenue Value Fund</u>	<u>Third Avenue Small-Cap Value Fund</u>	<u>Third Avenue Real Estate Value Fund</u>	<u>Third Avenue International Value Fund</u>	<u>Third Avenue Focused Credit Fund</u>
<b>Level 2 (continued)</b>					
<b>Short Term Investments:</b>					
U.S. Government Obligations	\$ —	\$ 109,981,628	\$ 49,999,517	\$ 49,999,683	\$ —
<b>Total for Level 2 Securities</b>	<b><u>2,009,714,556</u></b>	<b><u>205,634,251</u></b>	<b><u>986,325,404</u></b>	<b><u>945,038,853</u></b>	<b><u>863,753,892</u></b>
<b>Level 3: Significant Unobservable Inputs</b>					
<b>Investments in Securities:</b>					
<b>Common Stocks &amp; Warrants:</b>					
Auto Supply	0*	—	—	—	—
Consumer Products	26,318	—	—	—	—
Energy	—	—	—	—	13,119,000
Financial Insurance	555,000	—	—	—	—
Forest Products & Paper	—	1,375,955	—	4,618,680	—
Insurance & Reinsurance	145,847	—	—	—	—
Manufactured Housing	80,843,000	—	—	—	—
Services	—	—	—	—	0*
U.S. Real Estate Operating Companies	6,641,537	—	4,543,605	—	—
<b>Limited Partnerships:</b>					
Holding Companies	—	9,167,500	—	—	—
Insurance & Reinsurance	534,952	—	—	—	—
Investment Fund	—	—	37,324,299	—	—
<b>Preferred Stocks:</b>					
Insurance & Reinsurance	194,023	—	—	—	—
<b>Private Equities:</b>					
Aerospace	—	—	—	—	10,891,763
Financials	—	—	—	—	1,599,151
Utilities	—	—	—	—	5,065,900
<b>Corporate Debt Instruments#</b>	1,593,899	—	—	—	—
<b>Term Loans</b>	—	—	—	—	27,607,381
<b>Total for Level 3 Securities</b>	<b><u>90,534,576</u></b>	<b><u>10,543,455</u></b>	<b><u>41,867,904</u></b>	<b><u>4,618,680</u></b>	<b><u>58,283,195</u></b>
<b>Total Value of Investments</b>	<b><u>\$3,327,682,593</u></b>	<b><u>\$ 770,165,576</u></b>	<b><u>\$1,561,284,801</u></b>	<b><u>\$1,247,004,352</u></b>	<b><u>\$ 954,654,652</u></b>
<b>Investments in Other Financial Instruments:</b>					
<b>Level 2: Other Significant Observable Inputs</b>					
<b>Forward Foreign Currency Contracts</b>	\$ —	\$ —	\$ (6,326,365)	\$ —	\$ (154,636)
<b>Total Value of Depreciation of Other Financials Instruments</b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>	<b><u>\$ (6,326,365)</u></b>	<b><u>\$ —</u></b>	<b><u>\$ (154,636)</u></b>

† Significant transfers between Level 1 and Level 2 included securities valued at \$2,881,211,473, \$111,121,668, \$705,870,986, \$982,599,509 at October 31, 2011 for Third Avenue Value Fund, Third Avenue Small-Cap Value Fund, Third Avenue Real Estate Value Fund and Third Avenue International Value Fund respectively included in Level 2 that had previously been included in Level 1 at October 31, 2010. These changes were primarily the result of certain securities trading outside the U.S. whose values were adjusted by the application of fair value factors as a result of significant market movements following the close of local trading.

# Please refer to the Portfolios of Investments for industry specifics of the portfolio holdings.

\* Securities have zero values.

Transfers from Level 1 to Level 2, or from Level 2 to Level 1 are valued utilizing values as of the beginning of the year.

**Third Avenue Trust**  
**Notes to Financial Statements (continued)**  
**October 31, 2011**

Following is a reconciliation of Level 3 investments for which significant unobservable inputs were used to determine fair value:

	Balance as of 10/31/10 (fair value)	Net change in unrealized appreciation/ (depreciation)	Net purchases/ (sales)	Payment in-kind interest	Realized gain/(loss)	Balance as of 10/31/11 (fair value)	Net change in unrealized appreciation/ (depreciation) attributable to assets still held at period end
<b>Third Avenue Value Fund</b>							
<b>Common Stocks:</b>							
Auto Supply	\$ 0*	\$ —	\$ —	\$ —	\$ —	\$ 0*	\$ —
Consumer Products	26,318	—	—	—	—	26,318	—
Financial Insurance	555,000	—	—	—	—	555,000	—
Insurance & Reinsurance	191,667	20,194	(66,014) <sup>+</sup>	—	—	145,847	20,194
Manufactured Housing	35,000,000	9,843,000	36,000,000	—	—	80,843,000	9,843,000
U.S. Real Estate							
Operating Companies	10,436,702	2,904,640	(5,692,747)	—	(1,007,058)	6,641,537	1,423,187
<b>Corporate Debt</b>							
<b>Instruments#</b>	7,102,886	(6,542,843)	—	1,033,856	—	1,593,899	(6,542,843)
<b>Limited Partnerships:</b>							
Insurance & Reinsurance	367,955	166,997	—	—	—	534,952	166,997
<b>Preferred Stocks:</b>							
Insurance & Reinsurance	216,372	(44,096)	21,747 <sup>+</sup>	—	—	194,023	(44,096)
<b>Total</b>	<u>\$53,896,900</u>	<u>\$ 6,347,892</u>	<u>\$30,262,986</u>	<u>\$1,033,856</u>	<u>\$(1,007,058)</u>	<u>\$90,534,576</u>	<u>\$ 4,866,439</u>
<b>Third Avenue Small-Cap Value Fund</b>							
<b>Common Stocks:</b>							
Forest Products & Paper	\$ 4,447,931	\$(3,071,976)	\$ —	\$ —	\$ —	\$ 1,375,955	\$(3,071,976)
<b>Limited Partnerships:</b>							
Holding Companies	7,144,000	2,023,500	—	—	—	9,167,500	2,023,500
<b>Total</b>	<u>\$11,591,931</u>	<u>\$(1,048,476)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$10,543,455</u>	<u>\$(1,048,476)</u>

\* Securities have zero values.

+ Corporate action to properly state shares held.

^ Includes return of capital of \$(44,267).

# Please refer to the Portfolio of Investments for industry specifics for the portfolio holdings.

**Third Avenue Trust**  
**Notes to Financial Statements (continued)**  
**October 31, 2011**

	Balance as of 10/31/10 (fair value)	Net change in unrealized appreciation/ (depreciation)	Net purchases/ (sales)	Realized gain/(loss)	Transfer in/(out) Level 3	Balance as of 10/31/11 (fair value)	Net change in unrealized appreciation/ (depreciation) attributable to assets still held at period end
<b>Third Avenue Real Estate Value Fund</b>							
<b>Common Stocks:</b>							
U.S. Real Estate Operating Companies	\$ 7,140,280	\$ 2,247,865	\$ (3,894,878)	\$ (949,662)	—	\$ 4,543,605	\$ 973,630
<b>Limited Partnerships:</b>							
Investment Fund	38,735,530	(3,376,710)	1,965,479	—	—	37,324,299	(3,376,710)
<b>Total</b>	<u>\$45,875,810</u>	<u>\$ (1,128,845)</u>	<u>\$ (1,929,399)</u>	<u>\$ (949,662)</u>	<u>—</u>	<u>\$41,867,904</u>	<u>\$ (2,403,080)</u>
<b>Third Avenue International Value Fund</b>							
<b>Common Stocks:</b>							
Forest Products & Paper	\$14,930,405	\$(10,311,725)	—‡	—	—	\$ 4,618,680	\$(10,311,725)
<b>Third Avenue Focused Credit Fund</b>							
<b>Private Equities:</b>							
Aerospace	\$ —	\$ 1,387,126	\$ (550,000)	\$ (229,000)	\$ 10,283,637	\$10,891,763	\$ 1,433,128
Financials	14,300,000	(1,114,386)	(13,486,318)±	1,899,855	—	1,599,151	(296,568)
Utilities	—	1,000,355	(434,220)†	—	4,499,765	5,065,900	1,000,355
<b>Common Stocks &amp; Warrants:</b>							
Energy	—	10,619,000	2,320,000	180,000	—	13,119,000	10,619,000
Services	—	— <sup>^</sup>	—	—	—	0*	—
<b>Corporate Debt Instruments#</b>	14,676,415	—	—	—	(14,676,415)	—	—
<b>Term Loans#</b>	—	(657,979)	3,908,648**	425,795	23,930,917	27,607,381	(804,825)
<b>Total</b>	<u>\$28,976,415</u>	<u>\$ 11,234,116</u>	<u>\$ (8,241,890)</u>	<u>\$2,276,650</u>	<u>\$ 24,037,904</u>	<u>\$58,283,195</u>	<u>\$ 11,951,090</u>

± Included return of capital of \$(6,416,411).

\* Securities have zero values.

<sup>^</sup> Securities acquired with zero cost.

# Please refer to the Portfolios of Investments for industry specifics of the portfolio holdings.

‡ Corporate action with netted value of \$0.

† Return of capital.

\*\* Includes payment-in-kind of \$726,563, principal paydowns of \$5,823,492, amortization discount of \$73,470 and funded commitment of \$1,773,522.

Transfers into, and out of, Level 3 are valued utilizing values as of the beginning of the year.

Transfers from Level 2 to Level 3 or from Level 3 to Level 2 are due to decline or an increase in market activity (e.g. frequency of trades), which resulted in a lack of or increase in available market inputs to determine price.

In May 2011, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) No. 2011-04 “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards” (“IFRS”). ASU 2011-04 includes common requirements for measure-

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**Notes to Financial Statements (continued)**  
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ment of and disclosure about fair value between U.S. GAAP and IFRS. ASU 2011-04 will require reporting entities to disclose the following information for fair value measurements categorized within Level 3 of the fair value hierarchy: quantitative information about the unobservable inputs used in the fair value measurement, the valuation processes used by the reporting entity and a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs. In addition, ASU 2011-04 will require reporting entities to make disclosures about amounts and reasons for all transfers in and out of Level 1 and Level 2 fair value measurements. The new and revised disclosures are effective for interim and annual reporting periods beginning after December 15, 2011. At this time, management is evaluating the implications of ASU No. 2011-04 and its impact on the financial statements.

**Security transactions and investment income:**

Security transactions are recorded on a trade date basis. Dividend income is recorded on the ex-dividend date or, for certain foreign dividends, as soon as the Funds become aware of the dividends. Interest income, including, where applicable, amortization of premium and accretion of discount on investments, is recorded daily on the accrual basis, except when collection is not expected. Payments received from certain investments held by the Funds may be comprised of dividends, capital gains and return of capital. The Funds originally estimate the expected classification of such payments. These amounts may subsequently be reclassified upon receipt of information from the issuer. Realized gains and losses from securities transactions are recorded on an identified cost basis.

**Foreign currency translation and foreign investments:**

The books and records of the Funds are maintained in U.S. dollars. Foreign currency amounts are translated into U.S. dollars as follows:

- ***Investments and assets and liabilities denominated in foreign currencies:*** At the prevailing rates of exchange on the valuation date.
- ***Investment transactions and investment income:*** At the prevailing rates of exchange on the date of such transactions.

The net assets of the Funds are presented at market values using the foreign exchange rates at the close of the period. The Funds do not generally isolate that portion of the results of operations arising as a result of changes in the foreign exchange rates from the fluctuations arising from changes in the market prices of the securities held. Similarly, the Funds do not isolate the effect of changes in foreign exchange rates from the fluctuations arising from changes in the market prices of securities sold during the period. Accordingly, realized and unrealized foreign currency gains/(losses) are included in the reported net realized gain/(loss) and unrealized appreciation/(depreciation) on investments transactions and balances.

Net realized gains/(losses) on foreign currency transactions represent net foreign exchange gains/(losses) from foreign currency exchange contracts, disposition of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amount of investment income and foreign

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**Notes to Financial Statements (continued)**  
**October 31, 2011**

withholding taxes recorded on the Funds' books and the U.S. dollar equivalent amounts actually received or paid. Net unrealized currency gains/(losses) from valuing foreign currency denominated assets and liabilities at period end exchange rates are reflected as a component of unrealized appreciation/(depreciation) on the Statement of Assets and Liabilities. The change in net unrealized currency gains/(losses) for the period is reflected on the Statement of Operations.

Pursuant to U.S. federal income tax regulations, gains and losses from certain foreign currency transactions and the foreign currency portion of gains and losses realized on sales and maturities of foreign denominated debt securities are generally treated as ordinary income for U.S. federal income tax purposes.

**Term loans:**

The Funds typically invest in loans which are structured and administered by a third party entity (the "Agent") that acts on behalf of a group of lenders that make or hold interests in the loan. These securities generally pay interest at rates which are periodically pre-determined by reference to a base lending rate plus a premium. These base lending rates are generally either the lending rate offered by one or more major European banks, such as the LIBOR or the prime rate offered by one or more major United States banks, or the certificate of deposit rate. These securities are generally considered to be restricted, as the Funds are ordinarily contractually obligated to receive approval from the Agent bank and/or borrower prior to disposition. Remaining maturities of term loans may be less than the stated maturities shown as a result of contractual or optional payments by the borrower. Such prepayments cannot be predicted with certainty. The interest rate disclosed reflects the rate in effect on October 31, 2011.

**Forward foreign currency contracts:**

The Funds may be exposed to foreign currency risks associated with portfolio investments and therefore may use forward foreign currency contracts to hedge or manage these exposures. The Funds also may buy forward foreign currency contracts to gain exposure to currencies. Forward foreign currency contracts are valued at the forward rate and are marked-to-market daily. The change in market value is included in unrealized appreciation/(depreciation) on investments and foreign currency translations. When the contract is closed, the Funds record a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

The use of forward foreign currency contracts does not eliminate fluctuations in the underlying prices of the Funds' portfolio securities, but it does establish a rate of exchange that can be achieved in the future. Although forward foreign currency contracts limit the risk of loss due to a decline in the value of the hedged currency, they also limit any potential gain that might result should the value of the currency increase. In addition, the Funds could be exposed to risks if the counterparties to the contracts are unable to meet the terms of their contracts.

During the year-ended October 31, 2011, Third Avenue Real Estate Value Fund and Third Avenue Focused Credit Fund used forward foreign currency contracts for hedging against foreign currency risks.

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**Notes to Financial Statements (continued)**  
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**Option contracts:**

The Funds may purchase and sell (“write”) put and call options on various instruments including securities and foreign currency to manage and hedge exchange rate risks within their portfolios and also to gain long or short exposure to the underlying instruments.

An option contract gives the buyer the right, but not the obligation, to buy (call) or sell (put) an underlying item at a fixed exercise price on a certain date or during a specified period. The cost of securities acquired through the exercise of a call option is increased by the premiums paid. The proceeds from securities sold through the exercise of a purchased put option are decreased by the premiums paid. Investments in over-the-counter option contracts require the Funds to fair value or mark-to-market the options on a daily basis, which reflects the change in the market value of the contracts at the close of each day’s trading. The cost of purchased options that expire unexercised are treated by the Funds, on expiration date, as realized losses on investments.

When the Funds write an option, an amount equal to the premium received by the Funds is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the Funds, on the expiration date, as realized gains on written options. The difference between the premium and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain, or, if the premium is less than the amount paid for the closing purchase transaction, as a realized loss. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security or currency in determining whether the Funds have a realized gain or loss. If a put option is exercised, the premium reduces the cost basis of the security or currency purchased by the Funds. In purchasing and writing options, the Funds bear the market risk of an unfavorable change in the price of the underlying security or the risk that the Funds may not be able to enter into a closing transaction due to an illiquid market. Exercise of a written option could result in the Funds purchasing a security or currency at a price different from the current market value. The Funds may execute transactions in both listed and over-the-counter options. Listed options involve minimal counter-party risk since listed options are guaranteed against default by the exchange on which they trade. When purchasing over-the-counter options, the Funds bear the risk of economic loss from counterparty default, equal to the market value of the option.

During the year-ended October 31, 2011, Third Avenue Small-Cap Value Fund, Third Avenue Real Estate Value Fund and Third Avenue International Value Fund used purchased options on index and foreign currency to gain long exposure to the underlying instruments and/or to protect against losses in foreign currencies.

During the year-ended October 31, 2011, Third Avenue Small-Cap Value Fund and Third Avenue Real Estate Value Fund used written put options on equity securities to gain long exposure to the underlying equities.

**Swaptions:**

The Funds may purchase or write swap options (“swaptions”) in an attempt to gain additional protection against the effects of interest rate fluctuations. Swaptions are similar to options on securities except that instead of selling or purchas-

**Third Avenue Trust**  
**Notes to Financial Statements (continued)**  
**October 31, 2011**

ing the right to buy or sell a security, the writer or purchaser of the swap option is granting or buying the right to enter into an interest rate swap agreement at the expiration date of the option (see Note 9). In purchasing and writing swaptions, the Funds bear the risk of an unfavorable change in the price of the underlying interest rate swap or the risk that the Funds may not be able to enter into a closing transaction due to an illiquid market. The Funds execute transactions in over-the-counter swaptions. Transactions in over-the-counter swaptions may expose the Funds to the risk of default by the counterparty to the transaction. In the event of default by the counterparty, the Funds' maximum amount of loss is the premium paid (as purchaser) or the unrealized gain of the contract (as writer).

Changes in the value of the swaption are reported as unrealized gains or losses in the Statements of Assets and Liabilities and Statements of Operations. Gain or loss is recognized when the swaption contract expires or is closed. Premiums received or paid from writing or purchasing swaptions that expire or are exercised are treated by the Funds as realized gains or losses from investments. The difference between the premium and the amount paid on effecting a closing purchase transaction is also treated as a realized gain or, if the premium is less than the amount paid for the closing purchase, as a realized loss.

During the year-ended October 31, 2011, Third Avenue Small-Cap Value Fund used purchased swaptions to gain additional protection against the effects of interest rate fluctuations.

The following tables present the value of derivatives held as of October 31, 2011, by their primary underlying risk exposure and respective location on the Statements of Assets and Liabilities:

Fair Values of Derivative Instruments as of October 31, 2011 for the Third Avenue Small-Cap Value Fund:

<u>Derivative Contracts</u>	<u>Statement of Assets and Liabilities Location</u>	<u>Fair Value</u>
Foreign Currency Put Options	Assets, Investments at value	\$ 866,643
Foreign Currency Put Swaptions	Assets, Investments at value	<u>67,730</u>
Total		<u>\$ 934,373</u>

Fair Values of Derivative Instruments as of October 31, 2011 for the Third Avenue Real Estate Value Fund:

<u>Derivative Contracts</u>	<u>Statement of Assets and Liabilities Location</u>	<u>Fair Value</u>
Index Call Options	Assets, Investments at value	\$ 16,665,897
Forward Foreign Currency Contracts	Liabilities, Unrealized depreciation on forward foreign currency contracts	<u>(6,326,365)</u>
Total		<u>\$ 10,339,532</u>

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**Notes to Financial Statements (continued)**  
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Fair Values of Derivative Instruments as of October 31, 2011 for the Third Avenue International Value Fund:

<u>Derivative Contracts</u>	<u>Statement of Assets and Liabilities Location</u>	<u>Fair Value</u>
Foreign Currency Put Options	Assets, Investments at value	\$ 15,303,807

Fair Values of Derivative Instruments as of October 31, 2011 for the Third Avenue Focused Credit Fund:

<u>Derivative Contracts</u>	<u>Statement of Assets and Liabilities Location</u>	<u>Fair Value</u>
Equity Contracts Put Options	Assets, Investments at value	\$3,650,000
Forward Foreign Currency Contracts	Liabilities, Unrealized depreciation on forward foreign currency contracts	<u>(154,636)</u>
Total		<u>\$3,495,364</u>

The following tables present the effect of derivatives on the Statement of Operations during the year ended October 31, 2011, by primary risk exposure:

Effect of Derivative Instruments on the Statement of Operations during the year ended October 31, 2011 for the Third Avenue Small-Cap Value Fund:

<u>Derivative Contracts</u>	<u>Realized Gain/(Loss) on Derivatives Recognized in Income</u>	<u>Change in Unrealized Appreciation/(Depreciation) on Derivatives Recognized in Income</u>
Equity Contracts – Written Put Options	\$ 110,141	\$ —
Foreign Currency Put Options	(2,790,000)	662,593
Foreign Currency Swaptions	<u>—</u>	<u>(1,174,770)</u>
Total	<u>\$(2,679,859)</u>	<u>\$ (512,177)</u>

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**Notes to Financial Statements (continued)**  
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Effect of Derivative Instruments on the Statement of Operations during the year ended October 31, 2011 for the Third Avenue Real Estate Value Fund:

<u>Derivative Contracts</u>	<u>Realized Gain/(Loss) on Derivatives Recognized in Income</u>	<u>Change in Unrealized Appreciation/(Depreciation) on Derivatives Recognized in Income</u>
Equity Contracts – Written Call Options	\$2,775,546	\$ (474,703)
Index Call Options	—	7,479,367
Forward Foreign Currency Contracts	—	<u>(6,118,144)</u>
Total	<u>\$2,775,546</u>	<u>\$ 886,520</u>

Effect of Derivative Instruments on the Statement of Operations during the year ended October 31, 2011 for the Third Avenue International Value Fund:

<u>Derivative Contracts</u>	<u>Realized Gain/(Loss) on Derivatives Recognized in Income</u>	<u>Change in Unrealized Appreciation/(Depreciation) on Derivatives Recognized in Income</u>
Foreign Currency Put Options	\$(8,853,125)	\$(958,643)

Effect of Derivative Instruments on the Statement of Operations during the year ended October 31, 2011 for the Third Avenue Focused Credit Fund:

<u>Derivative Contracts</u>	<u>Realized Gain/(Loss) on Derivatives Recognized in Income</u>	<u>Change in Unrealized Appreciation/(Depreciation) on Derivatives Recognized in Income</u>
Equity Contracts Put Options	\$ —	\$2,030,908
Forward Foreign Currency Contracts	—	<u>(154,636)</u>
Total	<u>\$ —</u>	<u>\$1,876,272</u>

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**Notes to Financial Statements (continued)**  
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For the year ended October 31, 2011 the average volume of derivative activities were as follows:

	<u>Purchased Options</u> (Cost \$)	<u>Written Options</u> (Premium Received \$)	<u>Forward Foreign</u> <u>Currency Contracts</u> (Unrealized Depreciation \$)
Third Avenue Small-Cap Value Fund	5,049,038	18,244	—
Third Avenue Real Estate Value Fund	706,656	411,469	(1,641,870)
Third Avenue International Value Fund	12,556,392	—	—
Third Avenue Focused Credit Fund	279,924	—	(6,871)

**Derivatives Volume**

Derivative cost, premium and values are as of October 31, 2011, which are disclosed in the accompanying Portfolios of Investments and are indicative of the volume of the Funds' derivatives activities for the year ended October 31, 2011 (the "reporting period"), except as noted below:

The Small-Cap Value Fund maintained a relatively stable balance in its activity in purchased options during the reporting period, with an average cost balance of \$5,049,038 and an ending cost balance of \$4,930,000. This Fund also held written options during the reporting period with an average premium balance of \$18,244. The Fund no longer held positions in written options as of October 31, 2011.

The Real Estate Value Fund increased its activity in purchased options during the reporting period with an average cost balance of \$706,656 and an ending cost balance of \$9,186,530. This Fund decreased its options writing activity during the reporting period, with an average premium balance of \$411,469. The Fund no longer held positions in written options as of October 31, 2011. The Fund also invested in forward foreign currency contracts during the year with an average unrealized depreciation of \$1,641,870 and an ending unrealized depreciation balance of \$6,326,365.

The International Value Fund increased its options purchasing activity during the reporting period, with an average cost balance of \$12,556,392 and an ending cost balance of \$25,083,700.

The Focused Credit Fund increased its activity in purchased options during the reporting period with an average cost balance of \$279,924 and an ending cost balance of \$1,619,092. The Fund also invested in forward foreign currency contracts during the year with an average unrealized depreciation of \$6,871 and an ending unrealized depreciation balance of \$154,636.

The average costs, premiums and values are calculated based on the gross total of month-end amounts divided by total number of months.

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**Notes to Financial Statements (continued)**  
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**Floating rate obligations:**

The Funds may invest in debt securities with interest payments or maturity values that are not fixed, but float in conjunction with an underlying index or price. These securities may be backed by corporate issuers. The indices and prices upon which such securities can be based include interest rates and currency rates. Floating rate securities pay interest according to a coupon which is reset periodically.

**Dividends and distributions to shareholders:**

The amount of dividends and distributions paid to shareholders from net investment income and realized capital gains on sales of securities, respectively are determined in accordance with federal income tax law and regulations which may differ from U.S. GAAP. Such dividends and distributions are recorded on the ex-dividend date. The majority of dividends and capital gains distributions from a Fund may be automatically reinvested into additional shares of that Fund, based upon the discretion of the Fund's shareholders.

**Income tax information:**

The Funds have complied and intend to continue to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies, and each Fund intends to distribute all of its taxable investment income and realized gains to its shareholders. Therefore, no provision for U.S. federal income taxes is included on the accompanying financial statements.

Income, including gains, from investments in foreign securities received by the Funds may be subject to income, withholding or other taxes imposed by foreign countries.

Management has analyzed the tax positions taken on the Funds' U.S. federal income tax returns for all open tax years (current and prior three tax years), and has concluded that no provision for U.S. federal income tax is required in the Funds' financial statements. This conclusion may be subject to future review and adjustment at a later date based upon factors including, but not limited to, on-going analyses of and changes to tax laws, regulations and interpretations thereof. The Funds' U.S. federal, state and local income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to possible examination by the Internal Revenue Service as well as by state and local taxing authorities.

**Expense allocation:**

Expenses attributable to a specific Fund are charged to that Fund. Expenses attributable to the Trust are generally allocated using the ratio of each Fund's average net assets relative to the total average net assets of the Trust. Certain expenses are shared with Third Avenue Variable Series Trust, an affiliated fund group. Such costs are allocated using the ratio of the Funds' average net assets relative to the total average net assets of the Funds and Third Avenue Variable Series Trust.

**Third Avenue Trust**  
**Notes to Financial Statements (continued)**  
**October 31, 2011**

**Share class accounting:**

Investment income, common expenses and realized/unrealized gains/(losses) on investments are allocated to the two classes of shares of each Fund on the basis of daily net assets of each class. Fees relating to a specific class are charged directly to that share class.

**Trustees' and officers' fees:**

The Trust does not pay any fees to its officers for their services as such, except for the Chief Compliance Officer, to whom the Trust paid \$220,950 for the year ended October 31, 2011. The Trust does pay, together with Third Avenue Variable Series Trust, Trustees who are not affiliated with the Adviser a fee of \$5,000 for each meeting of the Board that they attend, in addition to reimbursing all Trustees for travel and incidental expenses incurred by them in connection with their attendance at meetings. If a special meeting is required, Trustees will each receive \$2,500. The Trust, together with Third Avenue Variable Series Trust, also pays non-interested Trustees an annual retainer of \$65,000 (the lead independent Trustee receives an additional retainer of \$12,000). The Trustees on the Audit Committee each receive \$2,000 for each audit committee meeting and the audit committee chairman receives an annual retainer of \$6,000.

**2. SECURITIES TRANSACTIONS**

**Purchases and sales/conversions:**

The aggregate cost of purchases and aggregate proceeds from sales and conversions of investments, excluding short-term investments, from unaffiliated and affiliated issuers (as defined in the Investment Company Act as ownership of 5% or more of the outstanding common stock of the issuer) for the year ended October 31, 2011 were as follows:

	<u>Purchases</u>	<u>Sales</u>
Third Avenue Value Fund:		
Affiliated	\$ 55,983,674	\$ 5,692,747
Unaffiliated	208,932,461	1,221,237,472
Third Avenue Small-Cap Value Fund:		
Affiliated	—	56,103,674
Unaffiliated	273,911,188	543,833,934
Third Avenue Real Estate Value Fund:		
Affiliated	14,143,850	4,903,796
Unaffiliated	590,974,421	478,911,148

**Third Avenue Trust**  
**Notes to Financial Statements (continued)**  
**October 31, 2011**

	<u>Purchases</u>	<u>Sales</u>
Third Avenue International Value Fund:		
Affiliated	\$ —	\$ 12,147,471
Unaffiliated	331,651,613	497,583,735
Third Avenue Focused Credit Fund:		
Affiliated	6,944,444	550,000
Unaffiliated	1,125,344,333	1,050,246,874

Written options transactions during the period are summarized as follows:

**Third Avenue Small-Cap Value Fund**

	<b>Put Options Written</b>	
	<u>Number of Contracts</u>	<u>Premiums Received</u>
Options outstanding at October 31, 2010	<u>—</u>	<u>\$ —</u>
Options written	2,000	237,170
Options terminated in closing purchase transactions	<u>(2,000)</u>	<u>(237,170)</u>
Options outstanding at October 31, 2011	<u>—</u>	<u>\$ —</u>

**Third Avenue Real Estate Value Fund**

	<b>Call Options Written</b>	
	<u>Number of Contracts</u>	<u>Premiums Received</u>
Options outstanding at October 31, 2010	<u>3,000</u>	<u>\$ 758,915</u>
Options written	5,390	1,253,158
Options expired	<u>(8,390)</u>	<u>(2,012,073)</u>
Options outstanding at October 31, 2011	<u>—</u>	<u>\$ —</u>

**Third Avenue Trust**  
**Notes to Financial Statements (continued)**  
**October 31, 2011**

	<b>Put Options Written</b>	
	<b>Number of Contracts</b>	<b>Premiums Received</b>
Options outstanding at October 31, 2010	15,669	\$ 796,245
Options written	20,995	1,526,320
Options exercised	(21,664)	(1,559,092)
Options expired	(15,000)	(763,473)
Options outstanding at October 31, 2011	—	\$ —

**3. INVESTMENT ADVISORY SERVICES, ADMINISTRATION AND SERVICE FEE AGREEMENTS**

Each Fund has an Investment Advisory Agreement with the Adviser for investment advice and certain management functions. The terms of the Investment Advisory Agreements provide the annual advisory fees based on the total average daily net assets for each Fund which are indicated as below. These fees are calculated daily and paid monthly.

<b>Fund</b>	<b>Annual Management Fee</b>
Third Avenue Value Fund	0.90%
Third Avenue Small-Cap Value Fund	0.90%
Third Avenue Real Estate Value Fund	0.90%
Third Avenue International Value Fund	1.25%
Third Avenue Focused Credit Fund	0.75%

Additionally, the Adviser pays certain expenses on behalf of the Funds which are partially reimbursed by the Funds, including service fees due to third parties, the compensation expense for the Funds' Chief Compliance Officer and other miscellaneous expenses. At October 31, 2011, Third Avenue Value Fund, Third Avenue Small-Cap Value Fund, Third Avenue Real Estate Value Fund, Third Avenue International Value Fund and Third Avenue Focused Credit Fund had amounts payable to the Adviser of \$382,015, \$113,859, \$184,205, \$113,517 and \$75,270 respectively, for reimbursement of expenses paid by the Adviser.

Under current arrangements, whenever, in any fiscal year, each Fund's normal operating expenses, including the investment advisory fee, but excluding taxes, interest, brokerage commissions, acquired fund fees and expenses, and extraordinary items, exceeds the expense limitation based on each Fund's average daily net assets, the Adviser has agreed to waive a portion of its advisory fees and/or reimburse each Fund in an amount equal to that excess. Below are the expense limitations and corresponding contingent liabilities to the Adviser in effect for each Fund:

**Third Avenue Trust**  
**Notes to Financial Statements (continued)**  
**October 31, 2011**

<u>Class</u>	<u>Expiration Date</u>	Expenses Waived through Fiscal Periods ending		
		<u>October 31, 2009</u>	<u>October 31, 2010</u>	<u>October 31, 2011</u>
		<b>Subject to Repayment until October 31,</b>		
		<u>2012</u>	<u>2013</u>	<u>2014</u>
Third Avenue Value Fund	2/29/2012	\$ —	\$1,528,767	\$ —
Third Avenue Small-Cap Value Fund	2/29/2012	—	24,680	—
Third Avenue Real Estate Value Fund	2/29/2012	—	—	—
Third Avenue International Value Fund	2/29/2012	427,922	1,525,043	582,479
Third Avenue Focused Credit Fund	2/29/2012	—	—	—

The waived fees and reimbursed expenses may be paid to the Adviser during the following three-year period after the end of the fiscal year in which an expense is deferred/waived or reimbursed by the Adviser, to the extent that the payment of such fees and expenses would not cause the Funds to exceed the preceding limitations. These expense limitations can be terminated at any time. The Adviser recovered previously waived fees and certain other reimbursed expenses of \$912,721, \$115,336 and \$492,298 for Third Avenue Value Fund, Third Avenue Small-Cap Value Fund and Third Avenue Real Estate Value Fund, respectively, for the year ended October 31, 2011.

The Trust has entered into an Administration Agreement with the Adviser pursuant to which the Adviser, as administrator, is responsible for providing various administrative services to the Trust. The Adviser has in turn entered into a Sub-Administration Agreement with BNY Mellon Investment Servicing (U.S.) Inc. (“BNY Mellon”) pursuant to which BNY Mellon provides certain of these administrative services on behalf of the Adviser. Each Fund pays the Adviser a fee calculated at an annual rate of 0.0055% of the average daily net assets of each respective Fund for such services. The Adviser pays BNY Mellon an annual sub-administration fee for sub-administration services provided to the Trust equal to \$207,746.

Both the Trust and the Adviser have entered into agreements with financial intermediaries to provide recordkeeping, processing, shareholder communications and other services to customers of the intermediaries investing in the Funds and have agreed to compensate the intermediaries for providing those services. Certain of those services would be provided by the Funds if the shares of each customer were registered directly with the Funds’ transfer agent. Accordingly, the Funds have agreed to reimburse a portion of the intermediary fees paid by the Adviser pursuant to provisions adopted by the Board. Each Fund pays a portion of the intermediary fees attributable to shares of the Fund not exceeding the estimated expense the Fund would have paid its transfer agent had each customer’s shares been registered directly with the transfer agent instead of held through the intermediary accounts. The Adviser pays the remainder of the fees. The fees incurred by the Funds are reflected as shareholder servicing fees in the Statements of Operations. For the year ended October 31, 2011, such fees amounted to \$6,402,679 for Third Avenue Value Fund, \$1,427,617 for Third Avenue Small-Cap Value Fund, \$2,321,027 for Third Avenue Real Estate Value Fund, \$1,161,448 for Third Avenue International Value Fund and \$729,788 for Third Avenue Focused Credit Fund.

**Third Avenue Trust**  
**Notes to Financial Statements (continued)**  
**October 31, 2011**

The Funds have an expense offset arrangement in connection with their custodian contract. Credits realized as a result of uninvested cash balances are used to reduce a portion of the Funds' custodian expenses. The following amounts are the reduction of expenses due to this arrangement for the year ended October 31, 2011. These amounts are reflected as "Expenses reduced by custodian fee expense offset arrangement" in the Statements of Operations.

<u>Fund</u>	<u>Custody Credit</u>
Third Avenue Value Fund	\$107,832
Third Avenue Small-Cap Value Fund	32,631
Third Avenue Real Estate Value Fund	63,763
Third Avenue International Value Fund	43,347
Third Avenue Focused Credit Fund	18,704

**4. LINE OF CREDIT**

Each Fund and Third Avenue Variable Series Trust are participants in a single committed, unsecured \$100,000,000 line of credit with The Bank of Nova Scotia, to be used only for temporary or emergency purposes. The interest on the loan is calculated at a variable rate based on the Overnight London Interbank Offered, Federal Funds or Prime Rates. A commitment fee of 0.10% per annum of the available line of credit is charged, of which each participating Fund pays its pro rata share, based on the ratio of its individual net assets to the net assets of all participants at the time the fee is due and payable. The fee is paid quarterly in arrears. Because all of the Funds in Third Avenue Trust and Third Avenue Variable Series Trust participate, there is no assurance that an individual Fund will have access to all or any part of the \$100,000,000 at any particular time. During the period from July 29, 2011 (commencement of line of credit agreement) to October 31, 2011, there were no loans outstanding under the line of credit.

**5. RELATED PARTY TRANSACTIONS**

**Brokerage commissions:**

M.J. Whitman LLC, a registered broker-dealer, operates under common control with the Adviser. For the year ended October 31, 2011, the Funds incurred brokerage commissions, paid to M.J. Whitman LLC, as follows:

<u>Fund</u>	<u>M.J. Whitman LLC</u>
Third Avenue Value Fund	\$53,812
Third Avenue Small-Cap Value Fund	68,667
Third Avenue Real Estate Value Fund	16,402
Third Avenue International Value Fund	28,541
Third Avenue Focused Credit Fund	—

**Investment in affiliates:**

A summary of the Funds' transactions in securities of affiliated issuers for the year ended October 31, 2011 is set forth below:

**Third Avenue Trust**  
**Notes to Financial Statements (continued)**  
**October 31, 2011**

**Third Avenue Value Fund**

Name of Issuer:	Shares/ Principal Amount Held at Oct. 31, 2010	Gross Purchases and Additions	Gross Sales and Reductions	Shares/ Principal Amount Held at Oct. 31, 2011	Value at Oct. 31, 2011	Investment Income Nov. 1, 2010 - Oct. 31, 2011
Carver Bancorp, Inc.	218,500	—	—	218,500	\$ 87,400	\$ —
Covanta Holding Corp.	8,816,889	—	—	8,816,889	129,255,593	1,983,800
FedFirst Financial Corp.	232,032	—	—	232,032	3,120,830	27,844
Fleetwood Homes, Inc.	500	514 <sup>1</sup>	—	1,014	80,843,000	—
FNC Realty Corp.	18,975,821	—	9,487,911	9,487,910	6,641,537	—
Forest City Enterprises, Inc., Class A	8,764,203	—	—	8,764,203	119,894,297	—
Forest City Enterprises, Inc., Class B	22,500	—	—	22,500	305,325	—
Gouverneur Bancorp, Inc.	205,511	—	—	205,511	1,448,853	69,874
Home Federal Bancorp, Inc.	274,157	—	24,400 <sup>2</sup>	249,757	3,209,377	59,942
Home Products International, Inc.	526,368	—	—	526,368	26,318	—
Home Products International, Inc., 2nd Lien, Convertible, PIK, 6.000%, due 3/20/17	16,976,305	1,033,857 <sup>3</sup>	—	18,010,162	1,593,899	1,007,427 <sup>3</sup>
Lai Sun Garment International, Ltd.	—	160,000,000	—	160,000,000	14,714,036	—
Manifold Capital Holdings, Inc.	37	—	—	37	555,000	—
RS Holdings Corp., Class A	9,337	—	—	9,337	1,772	—
RS Holdings Corp., Convertible Pfd., Class A	1,022,245	—	—	1,022,245	194,023	—
SFSB, Inc.	242,800	—	—	242,800	570,580	—
Sycamore Networks, Inc.	1,871,861	—	—	1,871,861	35,977,168	—
Tejon Ranch Co.	3,420,106	—	—	3,420,106	88,888,555	—
<b>Total Affiliates</b>					<b><u>\$487,327,563</u></b>	<b><u>\$3,148,887</u></b>

PIK: Payment-in-kind

<sup>1</sup> Share increased due to conversion of security.

<sup>2</sup> Share reduction due to reverse stock split.

<sup>3</sup> Payment-in-kind interest.

**Third Avenue Small-Cap Value Fund**

Name of Issuer:	Shares Held at Oct. 31, 2010	Gross Purchases and Additions	Gross Sales and Reductions	Shares Held at Oct. 31, 2011	Value at Oct. 31, 2011	Investment Income Nov. 1, 2010 - Oct. 31, 2011
Bel Fuse, Inc., Class B	741,242	—	—	741,242	\$13,253,407	\$ 207,548
Bronco Drilling Co., Inc. *	1,663,262	—	1,663,262	—	—	—
Catalyst Paper Corp.	21,530,352	—	—	21,530,352	1,375,955	—
Cross Country Healthcare, Inc.	3,221,822	—	1,458,978	1,762,844	8,814,220	—
Electro Scientific Industries, Inc. *	1,541,828	—	1,243,501	298,327	3,666,439	—
National Western Life Insurance Co., Class A *	190,037	—	164,572	25,465	3,661,103	—
Parco Co., Ltd. *	4,505,600	—	4,505,600	—	—	—
PYI Corp., Ltd.	475,780,230	—	—	475,780,230	14,492,104	1,830,006
<b>Total Affiliates</b>					<b><u>\$45,263,228</u></b>	<b><u>\$2,037,554</u></b>

\* As of October 31, 2011, no longer an affiliate.

**Third Avenue Trust**  
**Notes to Financial Statements (continued)**  
**October 31, 2011**

**Third Avenue Real Estate Value Fund**

Name of Issuer:	Shares/ Investment Amount Held at Oct. 31, 2010	Gross Purchases and Additions	Gross Sales and Reductions	Shares/ Investment Amount Held at Oct. 31, 2011	Value at Oct. 31, 2011	Investment Income Nov. 1, 2010 - Oct. 31, 2011
Alliance Bernstein Legacy Securities (C1) L.P.	34,000,000	2,000,000	—	36,000,000	\$ 37,324,299	\$ —
Consolidated-Tomoka Land Co.	500,500	—	—	500,500	14,989,975	15,015
FNC Realty Corp. *	12,982,327	—	6,491,463	6,490,864	4,543,605	—
Forest City Enterprises, Inc., Class A Newhall Holding Co. LLC,	8,290,773	813,609	257,584	8,846,798	121,024,197	—
Class A Units	28,893,141	620,000	—	29,513,141	42,794,054	—
Thomas Properties Group, Inc.	7,357,929	—	2,950	7,354,979	18,608,097	—
<b>Total Affiliates</b>					<b><u>\$239,284,227</u></b>	<b><u>\$ 15,015</u></b>

\* As of October 31, 2011, no longer an affiliate.

**Third Avenue International Value Fund**

Name of Issuer:	Shares Held at Oct. 31, 2010	Gross Purchases and Additions	Gross Sales and Reductions	Shares Held at Oct. 31, 2011	Value at Oct. 31, 2011	Investment Income Nov. 1, 2010 - Oct. 31, 2011
Boardroom, Ltd.	22,522,784	—	—	22,522,784	\$ 9,565,829	\$ 887,556
Catalyst Paper Corp.	60,271,095	12,000,000 <sup>1</sup>	—	72,271,095	4,618,680	—
Catalyst Paper Corp. †*	12,000,000	—	12,000,000 <sup>1</sup>	—	—	—
Netia S.A.	49,496,693	—	6,587,198	42,909,495	72,966,958	—
Rubicon, Ltd.	51,395,523	—	—	51,395,523	16,323,873	—
Tenon, Ltd.	10,482,120	—	—	10,482,120	5,340,751	—
WBL Corp., Ltd.	37,050,140	—	—	37,050,140	92,500,422	2,971,727
<b>Total Affiliates</b>					<b><u>\$201,316,513</u></b>	<b><u>\$3,859,283</u></b>

<sup>1</sup> Share increase/decrease due to conversion of security.

† Security is exempt from registration under Rule 144A of the Securities Act of 1933. This security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.

\* As of October 31, 2011, no longer an affiliate.

**Third Avenue Focused Credit Fund**

Name of Issuer:	Shares/ Principal Amount Held at Oct. 31, 2010	Gross Purchases and Additions	Gross Sales and Reductions	Shares/ Principal Amount Held at Oct. 31, 2011	Value at Oct. 31, 2011	Investment Income Nov. 1, 2010 - Oct. 31, 2011
Aveos Fleet Performance, Inc.:						
Revolving Credit, 11.250% due 3/12/13	800,946	1,773,522	—	2,574,468	\$ 2,497,234	\$ 212,710
Term Loan, 11.250% due 3/12/13	3,180,308	—	—	3,180,308	3,084,899	383,937
Term Loan A2, PIK, 10.750% due 3/12/15	—	6,977,623*	—	6,977,623	6,838,071	66,675*
Term Loan B, PIK, 10.750% due 3/12/15	6,107,539	693,385*	—	6,800,924	6,664,905	752,297*
Aveos Holding Co.	623,251	—	50,000	573,251	10,891,763	—
<b>Total Affiliates</b>					<b><u>\$29,976,872</u></b>	<b><u>\$1,415,619</u></b>

PIK: Payment-in-kind

\* Includes payment-in-kind interest.

**Third Avenue Trust**  
**Notes to Financial Statements (continued)**  
**October 31, 2011**

Certain employees of the Adviser serve as members of the board of directors of companies in which the Funds have investments. As a result of such service, for the year ended October 31, 2011, the Funds received the following board member fees from these companies that board members from the Adviser agreed to have paid directly to the benefit of the Funds. These fees are included in “Other Income” on the accompanying Statement of Operations.

<u>Fund</u>	<u>Fees</u>
Third Avenue Value Fund	\$111,823
Third Avenue Small-Cap Value Fund	4,193
Third Avenue Real Estate Value Fund	17,682

**6. DISTRIBUTION EXPENSES:**

The Board has adopted a distribution plan (the “Plan”) pursuant to Rule 12b-1 under the Investment Company Act. The Plan provides that, as compensation for distribution and related services provided to Third Avenue Value Fund Investor Class (“TVFVX”), Third Avenue Small-Cap Value Fund Investor Class (“TVSVX”), Third Avenue Real Estate Value Fund Investor Class (“TVRVX”), Third Avenue International Value Fund Investor Class (“TVIVX”), and Third Avenue Focused Credit Fund Investor Class (“TFCVX”), each Fund’s Investor Class accrues a fee calculated at the annual rate of 0.25% of average daily net assets of the class. Such fees may be paid to institutions that provide distribution services. The amount of fees paid during any period may be more or less than the cost of distribution and other services provided. FINRA rules impose a ceiling on the cumulative distribution fees paid. The Plan complies with those rules.

For the year ended October 31, 2011, distribution expenses were as follows:

<u>Fund</u>	<u>Distribution Fees</u>
Third Avenue Value Fund	\$ 63,122
Third Avenue Small-Cap Value Fund	16,313
Third Avenue Real Estate Value Fund	109,553
Third Avenue International Value Fund	37,080
Third Avenue Focused Credit Fund	798,065

**7. CAPITAL SHARE TRANSACTIONS**

Each Fund is authorized to issue an unlimited number of shares of each class of beneficial interest with \$0.001 par value.

**Third Avenue Trust**  
**Notes to Financial Statements (continued)**  
**October 31, 2011**

Transactions in capital stock of each class were as follows:

**Third Avenue Value Fund:**

	For the Year Ended October 31, 2011		For the Period Ended October 31, 2010	
	Investor Class		Investor Class*	
	Shares	Amount	Shares	Amount
Shares sold	446,995	\$ 22,587,661	453,117	\$ 20,799,904
Shares issued upon reinvestment of dividends and distributions	7,214	367,337	—	—
Shares redeemed**	(243,977)	(12,237,560)	(82,743)	(3,705,023)
Net increase	<u>210,232</u>	<u>\$ 10,717,438</u>	<u>370,374</u>	<u>\$ 17,094,881</u>
	For the Year Ended October 31, 2011		For the Year Ended October 31, 2010	
	Institutional Class		Institutional Class	
	Shares	Amount	Shares	Amount
Shares sold	5,127,067	\$ 258,905,978	9,646,420	\$ 443,500,202
Shares issued upon reinvestment of dividends and distributions	1,741,956	88,686,591	2,873,502	130,284,578
Shares redeemed**	(29,108,672)	(1,444,815,317)	(39,521,413)	(1,798,468,583)
Net decrease	<u>(22,239,649)</u>	<u>\$(1,097,222,748)</u>	<u>(27,001,491)</u>	<u>\$(1,224,683,803)</u>

**Third Avenue Small-Cap Value Fund:**

	For the Year Ended October 31, 2011		For the Period Ended October 31, 2010	
	Investor Class		Investor Class*	
	Shares	Amount	Shares	Amount
Shares sold	241,849	\$ 5,127,535	269,445	\$ 4,979,685
Shares issued upon reinvestment of dividends and distributions	2,292	47,738	—	—
Shares redeemed**	(107,234)	(2,297,147)	(36,586)	(654,724)
Net increase	<u>136,907</u>	<u>\$ 2,878,126</u>	<u>232,859</u>	<u>\$ 4,324,961</u>

**Third Avenue Trust**  
**Notes to Financial Statements (continued)**  
**October 31, 2011**

	For the Year Ended October 31, 2011		For the Year Ended October 31, 2010	
	Institutional Class		Institutional Class	
	Shares	Amount	Shares	Amount
Shares sold	3,017,774	\$ 63,843,002	5,364,238	\$ 97,704,734
Shares issued upon reinvestment of dividends and distributions	502,224	10,466,329	502,585	9,086,737
Shares redeemed**	(18,578,333)	(386,647,936)	(22,610,833)	(411,169,670)
Net decrease	<u>(15,058,335)</u>	<u>\$(312,338,605)</u>	<u>(16,744,010)</u>	<u>\$(304,378,199)</u>

**Third Avenue Real Estate Value Fund:**

	For the Year Ended October 31, 2011		For the Period Ended October 31, 2010	
	Investor Class		Investor Class*	
	Shares	Amount	Shares	Amount
Shares sold	1,468,101	\$ 34,437,218	1,348,093	\$ 28,175,728
Shares issued upon reinvestment of dividends and distributions	48,263	1,098,477	—	—
Shares redeemed**	(506,653)	(11,266,051)	(99,602)	(2,097,339)
Net increase	<u>1,009,711</u>	<u>\$ 24,269,644</u>	<u>1,248,491</u>	<u>\$ 26,078,389</u>

	For the Year Ended October 31, 2011		For the Year Ended October 31, 2010	
	Institutional Class		Institutional Class	
	Shares	Amount	Shares	Amount
Shares sold	15,516,901	\$ 361,514,800	19,117,775	\$ 395,528,332
Shares issued upon reinvestment of dividends and distributions	2,629,170	59,865,785	875,443	17,701,460
Shares redeemed**	(16,604,692)	(378,348,436)	(17,492,305)	(362,863,125)
Net increase	<u>1,541,379</u>	<u>\$ 43,032,149</u>	<u>2,500,913</u>	<u>\$ 50,366,667</u>

**Third Avenue International Value Fund:**

	For the Year Ended October 31, 2011		For the Period Ended October 31, 2010	
	Investor Class		Investor Class*	
	Shares	Amount	Shares	Amount
Shares sold	1,280,048	\$ 22,864,723	468,297	\$ 6,978,067
Shares issued upon reinvestment of dividends and distributions	6,877	114,010	—	—
Shares redeemed**	(795,698)	(13,235,091)	(44,004)	(667,752)
Net increase	<u>491,227</u>	<u>\$ 9,743,642</u>	<u>424,293</u>	<u>\$ 6,310,315</u>

**Third Avenue Trust**  
**Notes to Financial Statements (continued)**  
**October 31, 2011**

	<u>For the Year Ended October 31, 2011</u>		<u>For the Year Ended October 31, 2010</u>	
	<u>Institutional Class</u>		<u>Institutional Class</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
Shares sold	11,130,629	\$ 190,446,355	28,858,403	\$ 439,724,959
Shares issued upon reinvestment of dividends and distributions	1,457,602	24,181,557	1,001,423	15,301,778
Shares redeemed**	(22,122,812)	(374,763,909)	(24,731,451)	(373,219,635)
Net increase / (decrease)	<u>(9,534,581)</u>	<u>\$(160,135,997)</u>	<u>5,128,375</u>	<u>\$ 81,807,102</u>

**Third Avenue Focused Credit Fund:**

	<u>For the Year Ended October 31, 2011</u>		<u>For the Year Ended October 31, 2010</u>	
	<u>Investor Class</u>		<u>Investor Class</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
Shares sold	23,917,225	\$ 267,034,377	20,761,893	\$ 221,790,772
Shares issued upon reinvestment of dividends and distributions	1,971,089	21,672,598	927,004	9,962,593
Shares redeemed**	(15,637,023)	(169,794,805)	(8,639,373)	(93,986,247)
Net increase	<u>10,251,291</u>	<u>\$ 118,912,170</u>	<u>13,049,524</u>	<u>\$ 137,767,118</u>

	<u>For the Year Ended October 31, 2011</u>		<u>For the Year Ended October 31, 2010</u>	
	<u>Institutional Class</u>		<u>Institutional Class</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
Shares sold	31,012,475	\$ 348,328,323	49,402,936	\$ 531,080,618
Shares issued upon reinvestment of dividends and distributions	4,877,322	53,622,795	2,602,297	27,975,529
Shares redeemed**	(29,901,735)	(332,093,979)	(3,821,475)	(40,944,995)
Net increase	<u>5,988,062</u>	<u>\$ 69,857,139</u>	<u>48,183,758</u>	<u>\$ 518,111,152</u>

\* From the commencement of offering Investor Class shares on December 31, 2009.

\*\* Redemption fees are netted with redemption amounts.

Third Avenue Value Fund, Third Avenue Small-Cap Value Fund, Third Avenue Real Estate Value Fund, Third Avenue International Value Fund, and Third Avenue Focused Credit Fund charge a redemption fee of 1%, 1%, 1%, 2%, and 2%, respectively, for shares redeemed or exchanged for shares of another Fund within 60 days or less of the purchase date.

**Third Avenue Trust**  
**Notes to Financial Statements (continued)**  
**October 31, 2011**

**8. COMMITMENTS AND CONTINGENCIES**

At October 31, 2011, Third Avenue Real Estate Value Fund had the following commitment and contingency:

<u>Issuer</u>	<u>Type</u>	<u>Amount of Commitment</u>	<u>Funded Commitment</u>	<u>Value of Segregated Securities</u>
Alliance Bernstein Legacy Securities (C1) L.P.	Limited Partnership	\$40,000,000	\$36,000,000	\$4,000,000

Third Avenue Focused Credit Fund may enter into senior unsecured bridge financing commitments. Bridge financing commitments may obligate the Fund to furnish temporary financing to a borrower until permanent financing can be arranged. In connection with these commitments, the Fund earns a commitment fee, typically set as a percentage of the commitment amount. Such fee income is classified in the Statement of Operations as interest income. During the year ended October 31, 2011, the Fund earned \$2,141,477 in commitment fee income.

In the normal course of business, the Funds enter into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Funds' maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Funds that have not yet occurred. However, based on experience, the Funds expect the risk of loss to be remote.

**9. RISKS RELATING TO CERTAIN INVESTMENTS**

**Foreign securities:**

Investments in the securities of foreign issuers may involve investment risks different from those of U.S. issuers including possible political or economic instability of the country of the issuer, the difficulty of predicting international trade patterns, the possibility of currency exchange controls, the possible imposition of foreign taxes on income from and transactions in such instruments, the possible establishment of foreign controls, the possible seizure or nationalization of foreign deposits or assets, or the adoption of other foreign government restrictions that might adversely affect the foreign securities held by the Funds. Foreign securities may also be subject to greater fluctuations in price than securities of domestic corporations or the U.S. Government.

**High yield debt:**

The Funds may invest in high yield, lower grade debt (sometimes referred to as "junk bonds"). The market values of these higher yielding debt securities tend to be more sensitive to economic conditions and individual corporate developments than those of higher rated securities. In addition, the secondary market for these bonds is generally less liquid.

**Credit and interest rate risk:**

The market value of debt securities is affected by changes in prevailing interest rates and the perceived credit quality of the issuer. When prevailing interest rates fall or perceived credit quality improves, the market value of the affected debt

**Third Avenue Trust**  
**Notes to Financial Statements (continued)**  
**October 31, 2011**

securities generally rises. Conversely, when interest rates rise or perceived credit quality weakens, the market value of the affected debt securities generally declines.

**Market risk:**

Prices of securities (and stocks in particular) have historically fluctuated. The value of the Fund will similarly fluctuate and you could lose money.

**Counterparty risk:**

The Funds are exposed to counterparty risk, or the risk that an institution or other entity with which the Funds have unsettled or open transactions will default. The potential loss to the Funds could exceed the value of the financial assets recorded in the Funds' financial statements. Financial assets, which potentially expose the Funds to counterparty risk, consist principally of cash due from counterparties and investments. The Funds' Adviser, an affiliate of the Investment Manager, seeks to minimize the Funds' counterparty risk by performing reviews of each counterparty and by minimizing concentration of counterparty risk by undertaking transactions with multiple customers and counterparties on recognized and reputable exchanges. Delivery of securities sold is only made once the Funds have received payment. Payment is made on a purchase once the securities have been delivered by the counterparty. The trade will fail if either party fails to meet its obligation. At October 31, 2011, the Funds had counterparty concentration of credit risk primarily with JPMorgan Chase Bank N.A.

The Funds are party to International Swaps and Derivatives Association, Inc. Master Agreements ("ISDA Master Agreements") with select counterparties that govern transactions, over-the-counter derivatives and foreign exchange contracts entered into by the Funds and those counterparties. The ISDA Master Agreements contain provisions for general obligations, representations, agreements, collateral and events of default or termination. Events of termination include conditions that may entitle counterparties to elect to terminate early and cause settlement of all outstanding transactions under the applicable ISDA Master Agreement. Any election to terminate early could be material to the financial statements of the Funds.

The considerations and factors surrounding the settlement of certain purchases and sales made on a delayed-delivery basis are governed by Master Securities Forward Transaction Agreements ("Master Forward Agreements") between the Funds and select counterparties. The Master Forward Agreements maintain provisions for, among other things, initiation and confirmation, payment and transfer, events of default, termination, and maintenance of collateral.

The counterparty risk associated with certain contracts may be reduced by master netting arrangements to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Funds' overall exposure to counterparty risk with respect to transactions subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

**Third Avenue Trust**  
**Notes to Financial Statements (continued)**  
**October 31, 2011**

**Loans and other direct debt instruments:**

The Funds may invest in loans and other direct debt instruments issued by corporate borrowers. These loans represent amounts owed to lenders or lending syndicates (loans and loan participations) or to other parties. Direct debt instruments may involve a risk of loss in case of default or insolvency of the borrower and may offer less legal protection to the Fund in the event of fraud or misrepresentation. In addition, loan participations involve a risk of insolvency of the lending bank or other financial intermediary. The markets in loans are not regulated by federal securities laws or the SEC.

**Cash concentration:**

The Funds' cash balances are held at a major regional U.S. bank. The Funds' cash balances, which typically exceed Federal Deposit Insurance Corporation insurance coverage, subject the Funds to a concentration of credit risk. The Funds regularly monitor the credit ratings of this financial institution in order to mitigate the credit risk that exists with the balances in excess of insured amounts.

**Off-balance sheet risk:**

The Fund enters into derivatives which may represent off-balance sheet risk. Off-balance sheet risk exists when the maximum potential loss on a particular investment is greater than the value of such investment as reflected in the Statement of Assets and Liabilities.

**Fund concentration:**

The Funds hold relatively concentrated portfolios that may contain fewer securities or industries than the portfolios of other mutual funds. Holding a relatively concentrated portfolio may increase the risk that the value of a Fund could decrease because of the poor performance of one or a few investments. Additionally, the Funds may encounter some difficulty in liquidating securities of concentrated positions.

**10. FEDERAL INCOME TAXES**

The amount of dividends and distributions paid by the Funds from net investment income and net realized capital gains are determined in accordance with federal income tax law and regulations which may differ from U.S. GAAP. Such dividends and distributions are recorded on the ex-dividend date. In order to present accumulated undistributed net investment income (loss), accumulated net realized gain (loss) from investments and foreign currency transactions and paid-in capital on the Statement of Assets and Liabilities that more closely represent their tax character, certain adjustments have been made. "Book/tax" differences are either temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their tax-basis treatment. Temporary differences do not require reclassification. Permanent differences are primarily due to reclassification of certain transactions involving foreign securities and currencies, investments in passive foreign investment companies, real estate investment trusts ("REITs") and partnerships, the difference in the treatment of amortization of discount on certain debt instruments and other book to tax adjustments. Net investment income, net realized capital gain (loss) on investments and foreign currency transactions and net assets were not affected by these changes. For the year ended October 31, 2011, the adjustments were as follows:

**Third Avenue Trust**  
**Notes to Financial Statements (continued)**  
**October 31, 2011**

	<u>Increase/(Decrease) to Paid-in-Capital</u>	<u>Increase/(Decrease) to Accumulated Undistributed Net Investment Income/(Loss)</u>	<u>Increase/(Decrease) to Undistributed Net Realized Gain/(Loss) on Investments and Foreign Currency</u>
Third Avenue Value Fund	\$15,699,071	\$105,845,367	\$(121,544,438)
Third Avenue Small-Cap Value Fund	582,620	2,661,832	(3,244,452)
Third Avenue Real Estate Value Fund	(2,979,228)	17,292,114	(14,312,886)
Third Avenue International Value Fund	(913)	30,334,879	(30,333,966)
Third Avenue Focused Credit Fund	—	(362,417)	362,417

The tax character of dividends and distributions paid during the period ended October 31, 2011 was as follows:

	<u>Ordinary Income</u>	<u>Net Capital Gains</u>	<u>Total</u>
Third Avenue Value Fund	\$94,005,691	\$ —	\$94,005,691
Third Avenue Small-Cap Value Fund	10,998,978	—	10,998,978
Third Avenue Real Estate Value Fund	67,496,572	—	67,496,572
Third Avenue International Value Fund	26,197,299	—	26,197,299
Third Avenue Focused Credit Fund	88,531,484(a)	480,106	89,011,590

The tax character of dividends and distributions paid during the period ended October 31, 2010 was as follows:

	<u>Ordinary Income</u>	<u>Net Capital Gains</u>	<u>Total</u>
Third Avenue Value Fund	\$141,917,365	\$ —	\$141,917,365
Third Avenue Small-Cap Value Fund	9,502,988	—	9,502,988
Third Avenue Real Estate Value Fund	18,486,993	—	18,486,993
Third Avenue International Value Fund	16,339,865	—	16,339,865
Third Avenue Focused Credit Fund	42,818,716(a)	—	42,818,716

At October 31, 2011, the accumulated undistributed earnings on a tax basis were:

	<u>Undistributed Ordinary Income</u>	<u>Accumulated Capital Gains</u>
Third Avenue Value Fund	\$67,118,316	\$ —
Third Avenue Small-Cap Value Fund	2,195,334	2,526,528
Third Avenue International Value Fund	19,706,866	—
Third Avenue Focused Credit Fund	34,265,078(a)	19,645,397

(a) Includes short-term capital gains, which is taxed as ordinary income.

At October 31, 2011, Third Avenue Real Estate Value Fund had no distributable earnings on a tax basis.

**Third Avenue Trust**  
**Notes to Financial Statements (continued)**  
**October 31, 2011**

This differs from the amount shown on the Statement of Assets and Liabilities primarily due to cumulative timing difference. The United States federal income tax basis of the Funds' investments and the net unrealized appreciation (depreciation) as of October 31, 2011 were as follows:

	<u>Tax Basis of Investments</u>	<u>Appreciation</u>	<u>(Depreciation)</u>	<u>Total Unrealized Appreciation/ (Depreciation)</u>	<u>Other Cost Basis Adjustments</u>	<u>Total Net Unrealized Appreciation/ (Depreciation)</u>
Third Avenue Value Fund	\$3,293,902,552	\$728,033,608	\$(694,253,567)	\$33,780,041	\$(175,508)	\$33,604,533
Third Avenue Small-Cap Value Fund	772,893,056	124,533,780	(127,261,260)	(2,727,480)	18,534	(2,708,946)
Third Avenue Real Estate Value Fund	1,571,142,785	217,159,131	(227,017,115)	(9,857,984)	(117,647)	(9,975,631)
Third Avenue International Value Fund	1,396,494,524	128,359,236	(277,849,408)	(149,490,172)	121,592	(149,368,580)
Third Avenue Focused Credit Fund	1,028,159,452	45,746,499	(119,251,299)	(73,504,800)	6,041	(73,498,759)

The difference between book and tax basis total unrealized appreciation/(depreciation) is primarily attributable to deferred losses on wash sales, mark-to-market treatment of investments in certain passive foreign investment companies, investments in REITs and partnerships, differences in the treatment of amortization of discount on certain debt instruments and other timing differences. Other cost basis adjustments are primarily attributable to unrealized appreciation/(depreciation) on foreign currencies.

For the year ended October 31, 2011, certain Funds generated net capital gains which were offset by prior year capital loss carryforwards as follows:

Third Avenue Value Fund	\$228,890,872
Third Avenue Small-Cap Value Fund	52,086,014
Third Avenue Real Estate Value Fund	87,723,280
Third Avenue International Value Fund	81,448,789

As of October 31, 2011, certain Funds have capital loss carryforwards which should be available to offset certain gains generated in future years prior to their expiration date as follows:

<u>Expiration Date</u>	<u>Third Avenue Value Fund</u>	<u>Third Avenue Real Estate Value Fund</u>	<u>Third Avenue International Value Fund</u>
10/31/2017	\$407,198,562	\$ 14,589,926	\$ 67,126,072
10/31/2018	—	—	56,307,639
	<u>\$407,198,562</u>	<u>\$ 14,589,926</u>	<u>\$123,433,711</u>

**Third Avenue Trust**  
**Notes to Financial Statements (continued)**  
**October 31, 2011**

Therefore, no distributions of capital gains are expected to be paid to shareholders of the above Funds until either net capital gains in excess of such carryforwards are recognized or such carryforwards expire. It is uncertain whether the Funds will be able to realize the full benefit of such carryforwards prior to their expiration date.

The Regulated Investment Company Modernization Act of 2010 generally allows capital losses incurred in a taxable year beginning after December 22, 2010 (“post-enactment year”) to be carried forward for an unlimited period to the extent not utilized. However, any capital loss carryforward generated in a post-enactment year must be carried forward to offset subsequent year net capital gains before any capital loss carryforward from a pre-enactment year can be used. This may increase the risk that a capital loss generated in a pre-enactment year will expire unutilized. Additionally, post-enactment capital loss carryforwards will retain their character as either short-term or long-term capital losses.

**11. SUBSEQUENT EVENTS**

Management has evaluated the impact of all subsequent events on the Funds through the date the financial statements were issued, and has determined that there were no events, except those listed below, that would require adjustment to or additional disclosure in the Funds’ financial statements.

On December 20, 2011, the Funds made the following per share distributions to shareholders of record on December 19, 2011:

	<u>Ordinary Income</u>	<u>Short-Term Capital Gains</u>	<u>Long-Term Capital Gains</u>
Third Avenue Value Fund Institutional Class	\$0.9027	—	—
Third Avenue Value Fund Investor Class	\$0.7924	—	—
Third Avenue Small-Cap Value Fund Institutional Class	\$0.0654	—	\$0.0657
Third Avenue Small-Cap Value Fund Investor Class	\$0.0214	—	\$0.0657
Third Avenue International Value Fund Institutional Class	\$0.2595	—	—
Third Avenue International Value Fund Investor Class	\$0.2166	—	—
Third Avenue Focused Credit Fund Institutional Class	\$0.2226	\$0.2527	\$0.2010
Third Avenue Focused Credit Fund Investor Class	\$0.2160	\$0.2527	\$0.2010

## Report of Independent Registered Public Accounting Firm

### To the Trustees and Shareholders of Third Avenue Trust

In our opinion, the accompanying statements of assets and liabilities, including the portfolios of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Third Avenue Value Fund, Third Avenue Small-Cap Value Fund, Third Avenue Real Estate Value Fund, Third Avenue International Value Fund and Third Avenue Focused Credit Fund (collectively constituting Third Avenue Trust, hereafter referred to as the “Trust”) at October 31, 2011, the results of each of their operations for the year then ended, and the changes in each of their net assets and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Trust’s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at October 31, 2011 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
New York, New York  
December 28, 2011

## **Annual Renewal of Investment Advisory Agreements (Unaudited)**

At a meeting of the Board of Trustees of the Trust (the “Board”) held on June 8, 2011, the Trustees, by a unanimous vote (including a separate vote of those Trustees who are not “interested persons” (as the term is defined in the Investment Company Act) (the “Independent Trustees”)), approved the renewal of each Fund’s Investment Advisory Agreement (collectively, the “Agreements”). Prior to voting on the Agreements, the Independent Trustees met separately with their independent legal counsel for a discussion of the Adviser’s presentation and materials referred to below.

In advance of the meeting, the Independent Trustees, through their independent legal counsel, requested extensive materials, and the Adviser provided them, to assist the Board in considering the renewal of the Agreements. The Independent Trustees also constituted an ad hoc committee to work with representatives of the Adviser to evaluate the adequacy and extent of the information to be provided for their consideration. This committee communicated frequently with the Adviser’s representatives and independent legal counsel. At its June 8, 2011 meeting, the Board engaged in a detailed discussion of the materials with the Adviser. In considering the Agreements, the Trustees did not identify any single overriding factor and instead considered all factors collectively. As a part of their decision-making process, the Trustees considered information derived from their multi-year service on the Trust’s Board and their familiarity with the Adviser and its investment process. Among other things, they noted that the Adviser has managed each Fund since its inception, and expressed their belief that a long-term relationship with a capable, conscientious adviser is in the best interest of the Funds. The following is a summary of the discussions and conclusions regarding the material factors that formed the basis for the Board’s approval.

### **Factors Considered**

#### **A. Financial Condition of the Adviser; Advisory Fees; Profitability**

The Trustees received a presentation from representatives of the Adviser, including a report prepared by Lipper Inc., and reviewed:

1. the financial condition of the Adviser to determine that the Adviser is solvent and sufficiently well capitalized to perform its ongoing responsibilities to the Funds;
2. the information sources and methodology used in the selection of funds included in the comparison universe and the competitive fund group used in comparative analyses of each Fund’s advisory fees and expense ratio and in analyzing the Fund’s performance;
3. each Fund’s advisory fee and total expenses versus those of the comparison universe and competitive fund group, focusing on the total expense ratio of each Fund and the funds in its comparison universe and competitive fund group;
4. performance/expense analyses of each Fund and funds in its competitive fund group;
5. a comparison of fees paid to the Adviser versus fees paid by similar funds advised and sub-advised by the Adviser, as well as any similar separate advisory accounts;

**Annual Renewal of Investment Advisory Agreements (continued)**  
**(Unaudited)**

6. information presented in respect of economies of scale, noting the generally competitive expense ratios, the Adviser's agreement to limit certain Funds' total expenses, the extensive resources that the Adviser dedicates to its investment advisory process to the benefit of the Funds, the trend of expense ratios of each Fund since inception and the decline in certain Fund's assets since 2008;
7. the profitability to the Adviser resulting from each Agreement (including the fall-out benefits noted below), reviewing the dollar amount of expenses allocated and revenue received by the Adviser and the method used to determine such expenses and corresponding profit; and
8. fallout benefits, including (i) fees for providing administrative services and (ii) brokerage commissions paid to the Adviser's affiliated broker-dealer from transactions executed for the Funds, including the quarterly brokerage analysis performed by third party service providers and provided to the Trustees analyzing, among other things, the affiliated broker-dealer's per share commission and execution costs; and (iii) research services received by the Adviser in connection with executing Fund portfolio transactions.

**B. Description of Personnel And Service Provided by the Adviser**

The Trustees reviewed with representatives of the Adviser, and considered:

1. the nature, extent and quality of services rendered to the Funds, including the Adviser's investment, senior management and operational personnel, and the oversight of day-to-day operations of the Funds provided by the Adviser;
2. the Adviser's research and portfolio management capabilities, particularly the intensive research undertaken in connection with the Adviser's deep value philosophy; and
3. the value added through the Adviser's active management style that includes participation in corporate restructurings and other activist investments.

**C. Investment Performance of the Funds and Adviser**

1. The Trustees reviewed total return information for each Fund versus the comparison universe and competitive funds group for various periods and since inception. The Trustees also reviewed information pertaining to each Fund's risk adjusted performance and risk measures.

**Conclusions**

The Trustees concluded that the nature, extent and quality of the services provided by the Adviser are adequate and appropriate. The Trustees considered, evaluated and were satisfied with each Fund's overall performance in light of market conditions, the Adviser's investing style and circumstances particular to that Fund. They also considered the advisory fee and expense ratio of each Fund and evaluated the comparisons to those of funds in the comparable universe and competitive group and the performance/expense analysis, as discussed in the Adviser's presentation.

The Trustees discussed the Adviser's profitability, and it was noted that the profitability percentage for each Fund was within the range of profitability in relevant court cases upholding board approval of particular advisory agreements.

**Annual Renewal of Investment Advisory Agreements (continued)**  
**(Unaudited)**

The Trustees concluded that each Fund's fee paid to the Adviser was reasonable in light of comparative performance and advisory fee and expense information, costs of the services provided and profits and other benefits derived by the Adviser and its affiliates from their relationship with the Fund, including administration fees paid to the Adviser and brokerage fees paid to the Adviser's affiliates. The Trustees also considered the advisory fees charged for similar funds advised and sub-advised by the Adviser, as well as any separate advisory accounts, and reviewed the nature of the services provided and differences, from the Adviser's perspective, in managing the Funds as compared to advisory services provided to other advised and sub-advised funds and any separate accounts. The Trustees recognized that any differences in fees paid were consistent with the differences in services provided by the Adviser.

The Trustees considered whether economies of scale are shared with the Funds and considered each Fund's fee structure and the extensive resources that the Adviser dedicates to its investment advisory process to the benefit of the Funds. The Trustees concluded that additional material economies of scale were not present to be shared with the Funds, especially for Funds that have experienced declining assets.

## Management of the Trust (Unaudited)

Information pertaining to the Trustees and officers of the Trust is set forth below. The fund complex includes five portfolios in the Third Avenue Trust and one portfolio in the Third Avenue Variable Series Trust. The Statement of Additional Information (SAI) includes additional information about the Trustees and is available upon request, without charge, by calling (800) 443-1021.

### Interested Trustees

<u>Name, Date of Birth &amp; Address</u>	<u>Term of Office and Length of Time Served*</u>	<u>Position(s) Held With Registrant</u>	<u>Principal Occupation(s) During Past 5 Years</u>	<u>Other Directorships held by Trustee</u>
<b>Martin J. Whitman**</b> DOB: September 1924 622 Third Avenue New York, NY 10017	Trustee since 11/90	Chairman and Trustee	Chairman (3/90 to Present) of Third Avenue Trust; Chairman (7/99 to Present) of Third Avenue Variable Series Trust; Co-Chief Investment Officer (2/03 to Present) of Third Avenue Management LLC; CEO, President and Director (10/74 to Present) of Martin J. Whitman & Co., Inc. (formerly M.J. Whitman & Co. Inc.) (private investment company); Distinguished Management Fellow (1972 to 2007) of the Yale School of Management at Yale University; Chartered Financial Analyst.	Director (3/91 to 6/11) of Nabors Industries, Inc. (international oil drilling services).
<b>David M. Barse**</b> DOB: June 1962 622 Third Avenue New York, NY 10017	Trustee since 9/01	President, CEO and Trustee	President (5/98 to Present), Trustee (9/01 to Present), CEO (9/03 to Present) of Third Avenue Trust; President (7/99 to Present), Trustee (9/01 to Present) and CEO (9/03 to Present) of Third Avenue Variable Series Trust; CEO (4/03 to Present), President (2/98 to Present), Third Avenue Management LLC; CEO (7/99 to Present), President (6/95 to Present), Director (1/95 to Present) of M.J. Whitman, Inc. and its successor, M.J. Whitman LLC (registered broker-dealer); President of other funds advised by Third Avenue Management LLC (6/99 to Present).	Director (7/96 to Present) of Covanta Holding Corp. (utilities/waste management); Trustee (3/01 to Present) of Manifold Capital Holdings, Inc. (credit enhancement) and Trustee of Brooklyn Law School.

## Independent Trustees

Correspondence intended for any Independent Trustee may be sent to: Third Avenue Management LLC, 622 Third Avenue, 32nd Floor, New York, NY 10017.

<u>Name &amp; Date of Birth</u>	<u>Term of Office and Length of Time Served*</u>	<u>Position(s) Held With Registrant</u>	<u>Principal Occupation(s) During Past 5 Years</u>	<u>Other Directorships held by Trustee</u>
<b>Jack W. Aber</b> DOB: September 1937	Trustee since 8/02	Trustee	Professor of Finance (1972 to Present) of Boston University School of Management.	Trustee, The Managers Funds (1999 to Present) (41 portfolios); Trustee of Appleton Growth Fund (2001 to Present); Trustee of Aston Funds (2010 to Present) (26 portfolios); Trustee of Third Avenue Variable Series Trust (8/02 to Present).
<b>William E. Chapman, II</b> DOB: September 1941	Trustee since 8/02	Trustee	President and Owner (1998 to Present) of Longboat Retirement Planning Solutions (consulting firm); part-time employee delivering retirement and investment education seminars (1/00 to 11/09) for Hewitt Associates, LLC (consulting firm).	Trustee, The Managers Funds (1999 to Present) (41 portfolios); Director of Harding, Loevner Funds, Inc. (2008 to Present) (6 portfolios); Trustee of Aston Funds (2010 to Present) (26 portfolios); Trustee (5/02 to Present) of Bowdoin College; Director, The Mutual Fund Directors Forum (2010 to Present); Director, Sarasota Memorial Healthcare Foundation (2011 to Present). Trustee of Third Avenue Variable Series Trust (8/02 to Present).
<b>Lucinda Franks</b> DOB: July 1946	Trustee since 2/98	Trustee	Journalist and Author (1969 to Present).	Trustee of Third Avenue Variable Series Trust (7/99 to Present).
<b>Edward J. Kaier</b> DOB: September 1945	Trustee since 8/02	Trustee	Partner (7/07 to Present) at Teeters Harvey Gilboy & Kaier LLP (law firm); Partner (1977 to 7/07) at Hepburn Wilcox Hamilton & Putnam (law firm).	Trustee, The Managers Funds (1999 to Present) (41 portfolios); Trustee of Aston Funds (2010 to Present) (26 portfolios); Trustee of Third Avenue Variable Series Trust (8/02 to Present).

## Independent Trustees

<u>Name &amp; Date of Birth</u>	<u>Term of Office and Length of Time Served*</u>	<u>Position(s) Held With Registrant</u>	<u>Principal Occupation(s) During Past 5 Years</u>	<u>Other Directorships held by Trustee</u>
<b>Marvin Moser, M.D.</b> DOB: January 1924	Trustee since 11/94	Trustee	Clinical Professor of Medicine (1984 to Present) at Yale University School of Medicine; President of Hypertension Education Foundation (1977 to Present).	Director of Comprehensive Clinical Development (research and pharmaceutical site management company) (2002 to Present); Trustee of Third Avenue Variable Series Trust (7/99 to Present).
<b>Eric Rakowski</b> DOB: June 1958	Trustee since 8/02	Trustee	Professor (1990 to Present) at University of California at Berkeley School of Law.	Trustee, The Managers Funds (1999 to Present) (41 portfolios); Director of Harding, Loevner Funds, Inc. (2008 to Present) (6 portfolios); Trustee of Aston Funds (2010 to Present) (26 portfolios); Trustee of Third Avenue Variable Series Trust (8/02 to Present).
<b>Martin Shubik</b> DOB: March 1926	Trustee since 11/90	Trustee	Seymour H. Knox Professor (1975 to 2007) of Mathematical Institutional Economics, Yale University; Emeritus (2007 to Present).	Trustee of Third Avenue Variable Series Trust (7/99 to Present).
<b>Charles C. Walden</b> DOB: July 1944	Trustee since 5/96	Trustee	President and Owner (2006 to Present) of Sound Capital Associates, LLC (consulting firm); Executive Vice-President - Investments and Chief Investment Officer (1973 to 1/07) of Knights of Columbus (fraternal benefit society selling life insurance and annuities); Chartered Financial Analyst.	Director, Special Opportunities Fund, Inc. (2009 to Present). Trustee of Third Avenue Variable Series Trust (7/99 to Present).

\* Each trustee serves until his successor is duly elected and qualified.

\*\* Messrs. Whitman and Barse are "interested trustees" of the Trust due to their employment with and indirect ownership interests in the Adviser and the Distributor, M.J. Whitman LLC.

## Principal Trust Officers Who Are Not Trustees

<u>Name, Date of Birth &amp; Address</u>	<u>Position(s) Held With Registrant</u>	<u>Principal Occupation(s) During Past 5 Years</u>	<u>Other Directorships held by Officer</u>
<b>Vincent J. Dugan</b> DOB: September 1965 622 Third Avenue New York, NY 10017	Treasurer and CFO	Treasurer and Chief Financial Officer (CFO) (9/04 to Present) of Third Avenue Trust; Treasurer and CFO (9/04 to Present) of Third Avenue Variable Series Trust; Chief Operating Officer (COO) and CFO (8/04 to Present) of Third Avenue Management LLC; COO and CFO (8/04 to Present) of Third Avenue Holdings Delaware LLC; COO and CFO (8/04 to Present) of M.J. Whitman LLC and subsidiaries; COO and CFO (8/04 to Present) of certain other funds advised by Third Avenue Management LLC (8/04 to Present).	N/A
<b>Michael A. Buono</b> DOB: May 1967 622 Third Avenue New York, NY 10017	Controller	Controller (5/06 to Present) of Third Avenue Trust, Third Avenue Variable Series Trust, Third Avenue Management LLC and M.J. Whitman LLC and subsidiaries.	N/A
<b>W. James Hall III</b> DOB: July 1964 622 Third Avenue New York, NY 10017	General Counsel and Secretary	General Counsel and Secretary (6/00 to Present) of Third Avenue Trust; General Counsel and Secretary (9/00 to Present) of Third Avenue Variable Series Trust; General Counsel and Secretary (9/00 to Present) of EQSF Advisers, Inc., and its successor, Third Avenue Management LLC; General Counsel and Secretary (5/00 to Present) of M.J. Whitman, Inc. and its successor, M.J. Whitman LLC; General Counsel and Secretary of certain other funds advised by Third Avenue Management LLC (7/02 to Present).	N/A
<b>Joseph J. Reardon</b> DOB: April 1960 622 Third Avenue New York, NY 10017	Chief Compliance Officer	Chief Compliance Officer (4/05 to Present) of Third Avenue Trust, Third Avenue Variable Series Trust and Third Avenue Management LLC.	N/A

**Third Avenue Trust**  
**Schedule of Shareholder Expenses**  
**(Unaudited)**

As a shareholder of a Fund, you incur two types of costs: (1) transaction costs, such as redemption fees; and (2) ongoing costs, including management fees, shareholder servicing fees, distribution fees (if applicable) and other Fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds.

The example is based on an investment of \$1,000 invested at the beginning of the period, May 1, 2011, and held for the six month period ended October 31, 2011.

**Actual Expenses**

For each Class of each Fund in the table below, the first line provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled "Expenses Paid During the Period" to estimate the expenses you paid on your account during this period.

**Hypothetical Example for Comparison Purposes**

The second line of each Class in the table below provides information about hypothetical account values and hypothetical expenses based on the Class' actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Class' actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Class of the Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs, such as redemption fees. Therefore, the second line of each Class in the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher. The examples also assume all dividends and distributions have been reinvested.

	Beginning Account Value May 1, 2011	Ending Account Value October 31, 2011	Expenses Paid During the Period May 1, 2011 to October 31, 2011*	Annualized Expense Ratio
Third Avenue Value Fund				
Investor Class				
Actual	\$1,000.00	\$ 812.10	\$6.43	1.40%
Hypothetical	\$1,000.00	\$1,018.25	\$7.16	1.40%
Institutional Class				
Actual	\$1,000.00	\$ 813.30	\$5.28	1.15%
Hypothetical	\$1,000.00	\$1,019.51	\$5.89	1.15%
Third Avenue Small-Cap Value Fund				
Investor Class				
Actual	\$1,000.00	\$ 887.00	\$6.69	1.40%
Hypothetical	\$1,000.00	\$1,018.25	\$7.16	1.40%
Institutional Class				
Actual	\$1,000.00	\$ 888.00	\$5.50	1.15%
Hypothetical	\$1,000.00	\$1,019.51	\$5.89	1.15%
Third Avenue Real Estate Value Fund				
Investor Class				
Actual	\$1,000.00	\$ 867.40	\$6.63	1.40%
Hypothetical	\$1,000.00	\$1,018.25	\$7.16	1.40%
Institutional Class				
Actual	\$1,000.00	\$ 868.40	\$5.45	1.15%
Hypothetical	\$1,000.00	\$1,019.51	\$5.89	1.15%
Third Avenue International Value Fund				
Investor Class				
Actual	\$1,000.00	\$ 819.00	\$7.61	1.65%
Hypothetical	\$1,000.00	\$1,016.98	\$8.43	1.65%
Institutional Class				
Actual	\$1,000.00	\$ 819.80	\$6.46	1.40%
Hypothetical	\$1,000.00	\$1,018.25	\$7.16	1.40%

**Third Avenue Trust**  
**Schedule of Shareholder Expenses (continued)**  
**(Unaudited)**

	<u>Beginning Account Value May 1, 2011</u>	<u>Ending Account Value October 31, 2011</u>	<u>Expenses Paid During the Period May 1, 2011 to October 31, 2011*</u>	<u>Annualized Expense Ratio</u>
Third Avenue Focused Credit Fund				
Investor Class				
Actual	\$1,000.00	\$ 932.70	\$5.88	1.20%
Hypothetical	\$1,000.00	\$1,019.26	\$6.14	1.20%
Institutional Class				
Actual	\$1,000.00	\$ 933.60	\$4.66	0.95%
Hypothetical	\$1,000.00	\$1,020.53	\$4.86	0.95%

\* Expenses (net of fee waivers and/or expense reimbursements/expense offset arrangement/expense recovery) are equal to the Class' annualized expense ratio, multiplied by the average account value over the period, multiplied by the number of days in the most recent fiscal half-year (185) divided by 365.

**Third Avenue Trust**  
**Federal Tax Status of Dividends and Distributions**  
**(Unaudited)**

The following information represents the tax status of dividends and distributions paid by the Funds during the fiscal year ended October 31, 2011. This information is presented to meet regulatory requirements and no current action on your part is required. The information and distributions reported below will differ from the information and distributions taxable to shareholders for the calendar year ending December 31, 2011.

During the fiscal year ended October 31, 2011, Third Avenue Focused Credit Fund paid to you in cash or reinvested into your account of \$0.788 and \$0.812 per share from net investment income for Investor and Institutional Classes, respectively and \$0.099 from short-term capital gain for both classes, which is taxed as ordinary income. Additionally, during the fiscal year ended October 31, 2011, Third Avenue Focused Credit Fund paid to you in cash or reinvested into your account of \$0.006 per share from long-term capital gain for both classes, which is taxed as such.

For the fiscal year ended October 31, 2011, the designations below are applicable to the ordinary income dividends paid by each Fund in accordance with Section 854 of the Internal Revenue Code.

	<u>Qualified Dividend Income for Individuals</u>	<u>Dividends Received Deduction for Corporations</u>
Third Avenue Value Fund	\$21,828,245	9.60%
Third Avenue Small-Cap Value Fund	9,337,533	54.19%
Third Avenue Real Estate Value Fund	25,602,615	25.07%
Third Avenue International Value Fund	27,692,916	58.93%

The following Funds intend to elect to pass through to shareholders the income taxes paid to foreign countries which may be eligible for the foreign tax credit in accordance with Section 853 of the Internal Revenue Code. Gross foreign source income and foreign tax expenses for the year ended October 31, 2011 are as follows:

	<u>Gross Foreign Source Income</u>	<u>Foreign Tax Pass Through</u>
Third Avenue Value Fund	\$67,748,519	\$3,998,892
Third Avenue International Value Fund	34,221,553	3,652,147

Information necessary to complete your income tax returns for the calendar year ending December 31, 2011 will be issued by the Funds in the early part of 2012.

## **BOARD OF TRUSTEES**

<b>Jack W. Aber</b>	<b>Marvin Moser</b>
<b>David M. Barse</b>	<b>Eric Rakowski</b>
<b>William E. Chapman, II</b>	<b>Martin Shubik</b>
<b>Lucinda Franks</b>	<b>Charles C. Walden</b>
<b>Edward J. Kaier</b>	<b>Martin J. Whitman</b>

## **OFFICERS**

**Martin J. Whitman — Chairman of the Board**  
**David M. Barse — President, Chief Executive Officer**  
**Vincent J. Dugan — Chief Financial Officer, Treasurer**  
**Michael A. Buono — Controller**  
**W. James Hall — General Counsel, Secretary**  
**Joseph J. Reardon — Chief Compliance Officer**

## **TRANSFER AGENT**

**BNY Mellon Investment Servicing (U.S.) Inc.**  
**P.O. Box 9802**  
**Providence, RI 02940-8002**  
**610-239-4600**  
**800-443-1021 (toll-free)**

## **INVESTMENT ADVISER**

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

## **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**PricewaterhouseCoopers LLP**  
**300 Madison Avenue**  
**New York, NY 10017**

## **CUSTODIAN**

**JPMorgan Chase Bank, N.A.**  
**14201 Dallas Parkway, 2nd Floor**  
**Dallas, TX 75254**



**Third Avenue Funds**  
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**New York, NY 10017**  
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**[www.thirdave.com](http://www.thirdave.com)**