



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

**THIRD QUARTER REPORT
AND PORTFOLIO MANAGER COMMENTARY**

July 31, 2010

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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, 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 — August 25, 2010.

This booklet consists of two separate documents.

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THIRD QUARTER PORTFOLIO MANAGER COMMENTARY

July 31, 2010

Letter from the Chairman



MARTIN J. WHITMAN
CHAIRMAN OF THE BOARD

Dear Fellow Shareholders:

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

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

benchmarks to ascertain his or her determinations of what economic reality is.

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

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

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

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

- 1) **Cash flows from operations available to securities holders.** This, while not uncommon, seems more rare than most commentators seem to believe.
- 2) **Earnings, with earnings defined as creating wealth while consuming cash.** This seems to be what the vast majority of businesses and the vast majority of governments do the vast majority of the time. For the vast majority of entities, it is hard for earnings to deliver good results to shareholders over the long term, unless the entity has access to capital markets or has

created saleable assets. As a practical matter, for earnings to create corporate value, the entity has to remain, or become, credit-worthy.

- 3) **Resource Conversion results in the creation of corporate wealth through asset redeployments, liability restructurings, and changes of control.** These are accomplished through mergers and acquisitions, liquidations, investments in new areas, cash purchases of control blocks of securities, voluntary exchanges, spin-offs, debt restructurings, repurchases of outstanding common stocks (either leaving the issuer a public entity or going private).
- 4) **Having access to capital markets on a super attractive basis.** Probably more corporate value has been created this way than any other, especially when such super attractive access is combined with an ability for the entity to benefit from an absence, or relative absence, of income tax burdens. Such super attractive access to capital markets includes both equity markets and credit markets. A primary example of an equity market where corporations had super attractive access (free money if you wish) was the pre-2000 dot com bubble. Credit markets which are super attractive include the availability of non-recourse mortgage loans for a long term at low, fixed-interest rates issued to finance the ownership of income producing real estate.

A good example of the difficulty in prescribing GAAP rules that reflect economic reality revolves around accounting for financial instruments, whether those instruments should be carried at amortized cost less impairments, or at lower of cost or fair value (with fair value usually equaling market price). The Financial Accounting Standards Board (“FASB”) is considering the matter currently. The FASB’s current position seems wise – disclose both amortized cost and fair value. One disclosure would be in the financial statements themselves and the other would be in the footnotes to the financial statements. The real world scenarios for accounting for financial instruments are

so complex, I’d leave it up to corporate managements to decide whether fair value ought to be in the financial statements or footnotes; ditto for amortized cost, of course. Whichever management chooses becomes a good tool to help value analysts appraise management, e.g., how promotional are they?

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

the balance sheet test. Maybe the performing loan portfolio would pass the income test with flying colors while flunking the balance sheet test. If so, I'd postulate that amortized cost were the more important measure; if not, I'd opt for fair value. However, it should be noted that whether or not an event of default exists would be determined by the covenants in loan agreements and bond indentures.

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

had not risen. Which should be weighed more heavily – the current reductions in fair value or the prospective increases in investment income? That is something for the analyst, not the accountant, to decide.

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

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

"It is much more important for the U.S. economy to have its accounting systems geared toward informing creditors in a meaningful fashion than it is to have accounting systems directed toward meeting the perceived needs of Outside Passive Minority Investors."

It is much more important for the U.S. economy to have its accounting systems geared toward informing creditors in a meaningful fashion than it is to have accounting systems directed toward meeting the perceived needs of Outside Passive Minority Investors ("OPMIs"). First, there is a lot more credit outstanding in the economy than there is net worth. Second, creditors use accounting to help determine the credit-worthiness of a company by estimating whether that company

will be able to generate cash internally, both long and short term, to pay its bills, and by estimating whether that company is likely to have relatively continual access to capital markets, especially credit markets. In contrast, OPMIs tend to place overemphasis on one accounting number – reported earnings – in order to predict what stock market prices in the immediate future might be. Bluntly, accounting systems do not seem as if they can really be very helpful as a tool for predicting near-term equity prices in OPMI markets. As far as I can tell, near-term market prices for common stocks in non-arbitrage situations will continue to be a "random walk".

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

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

Assuming stock options are to be treated as a company expense, what should that expense be? Presently, the disclosure required under GAAP assumes that the cost of options to the company equals the theoretical value of the options to the recipients. However, it is utterly ludicrous to suppose that the value of a benefit to a recipient has any necessary relationship to the cost to a company to bestow that benefit. It is as if a sales clerk who has a 40% off employee discount buys a \$100

sweater from her department store for \$60 and the store then states that it incurred a cost of \$100 because that is what the sweater is worth to the clerk, even though the company's actual cost for the sweater might be, say, \$35. The real cost of an executive option to the company (rather than to its stockholders) equals the present value of the probability that option program will reduce the company's future access to capital markets, especially equity markets. I would not know how to measure such a cost. In fact, there should be an offset to this cost, namely the present value of the probability that the options program increases the retention of talent and/or motivates that talent's productivity.

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

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

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

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

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

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

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

The Fund’s common stock portfolio is invested in the issues of extremely well-capitalized companies which were acquired at prices that, at the time of acquisition, represented meaningful discounts from readily ascertainable NAVs. The NAVs became readily ascertainable insofar as the specific assets

consisted of certain marketable securities: income producing real estate; land suitable for development; and intangibles, such as mutual fund assets under management. Rarely (except for cash and equivalents), were these readily ascertainable asset values classified as current assets under GAAP. The Fund’s definition of Net-Nets is taken from Graham and Dodd’s Security Analysis, but with a few twists. Graham and Dodd relied on a GAAP classified balance sheet to define current assets in order to ascertain if a common stock

“Over 80% of the TAVF portfolio is invested in the common stocks of companies I like to think of as Graham and Dodd Net-Nets on steroids. The reason for steroids is that we believe the prospects seem bright that over the next five to seven years that net asset values (“NAVs”) of the TAVF portfolio companies will increase by not less than 10% to 20% per annum compounded.”

was a Net-Net. TAVF uses its own judgment, rather than GAAP classification, to define current assets in order to decide what is a liquid, i.e., current asset.

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

Net-Current-Asset Value

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

While Graham and Dodd seem to have invented the idea of Net-Nets, TAVF uses that idea with a number of modifications. First, the Fund is not interested in Net-Nets unless the company is extremely well financed. A large quantity of current assets, especially if they consist of

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

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

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

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

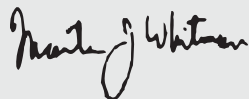
- 1) The company is a stand-alone and its financial statements should reflect this fact. It is not the stockholders, it is not the management. If this were recognized there never would have been a "stock option" controversy in the first place.
- 2) Financial accounting should be directed, first and foremost, toward meeting the needs of creditors. There certainly should exist a modifying convention of conservatism. It is impossible to design a meaningful accounting system to meet the perceived needs of day

traders and stock market technicians, whether market participants or financial academics.

- 3) Insofar as possible, financial accounts ought to be based on principles, rather than rules. Now, because of a focus on rules, GAAP has become as complicated as the Internal Revenue Code. What a waste!
- 4) Financial statements ought to be prepared on the assumption that users are intelligent, diligent, and reasonably well trained in understanding the uses and limitations of financial accounting.

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

Sincerely yours,



Martin J. Whitman
Chairman of the Board

Third Avenue Value Fund



IAN LAPEY
Co-Portfolio Manager of
THIRD AVENUE VALUE FUND

Dear Fellow Shareholders:

At July 31, 2010, the unaudited net asset value attributable to the 107,920,091 shares outstanding of the Third Avenue Value Fund Institutional Class shares (“TAVF”, “Third Avenue”, or the “Fund”) was \$44.78 per share. This compares with an unaudited net asset value of \$47.15 per share at April 30, 2010; and an unaudited net asset value of \$41.00 per share at July 31, 2009, adjusted for a subsequent distribution to shareholders. At August 23, 2010, the unaudited net asset value was \$43.82 per share.

QUARTERLY ACTIVITY

Number of Shares, Rights or Principal Amount

3,420,106 rights

296,094 shares

\$30,000,000

New Position

Tejon Ranch Co. Rights
 (“Tejon Rights”)

Position Increased

Sycamore Networks Inc.
 Common Stock (“Sycamore Common”)

Positions Decreased

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

Number of Shares, Rights or Principal Amount

6,177,000 shares

347,800 shares

3,000,000 shares

3,455,000 shares

4,000,000 shares

2,256,000 shares

\$27,255,462

234,609 shares

2,200,000 shares

1,000,000 shares

359,250 shares

3,420,106 rights

Positions Decreased (continued)

Chong Hing Bank Ltd. Common Stock
 (“Chong Hing Common”)

Cimarex Energy Co. Common Stock
 (“Cimarex Common”)

Forest City Enterprises
 Common Stock (“Forest City Common”)

Guoco Group Ltd. Common Stock
 (“Guoco Common”)

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

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

Positions Eliminated

CIT Group Inc Senior Unsecured
 Debentures (“CIT Seniors”)

CIT Group, Inc. Common Stock
 (“CIT Common”)

Jardine Matheson Holdings Ltd.
 Common Stock (“Jardine Common”)

MDC Holdings Inc. Common Stock
 (“MDC Common”)

Pargesa Holdings SA
 (“Pargesa Common”)

Tejon Ranch Co. Rights
 (“Tejon Rights”)

Like last quarter, portfolio activity was focused on meeting redemptions and maintaining a prudent cash position (approximately 5%) as the number outstanding shares in the Fund declined by 7.6%. All of the sales during the

* 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 July 31, 2010: Henderson Land Development Co., Ltd., 13.50%; Cheung Kong Holdings, 13.42%; Toyota Industries Corp., 9.68%; Posco (ADR), 7.51%; Wheelock & Co., Ltd., 5.45%; Brookfield Asset Management, Inc., 5.18%; Wharf Holdings, Ltd., 4.82%; Nabors Industries, Ltd., 4.21%; Investor AB, 3.97%; and Bank of New York Mellon Corp., 3.10%.

quarter, other than the MBIA Surplus Notes, were for portfolio management considerations, rather than investment considerations.

Early in the quarter, Fund Management took advantage of the rise in the market price in MBIA's Surplus Notes to sell \$30 million (face) of its position at an average price of approximately \$67.30, which represented a modest premium to our average cost after factoring in interest received and accrued interest. Fund Management added to its position in Sycamore Common, following the company's announcement of a new product, IQstream, which is designed to help mobile carriers address the rapid growth of broadband applications on their networks. While it is much too early to claim commercial success for this product (it will not even become available for customers until the fourth quarter), it appears to have attractive potential. Fund Management was able to purchase Sycamore Common at nearly a 10% discount to the company's cash and investments, ascribing no value to its existing business or Net Operating Loss Carry-forwards available to offset future taxable income.

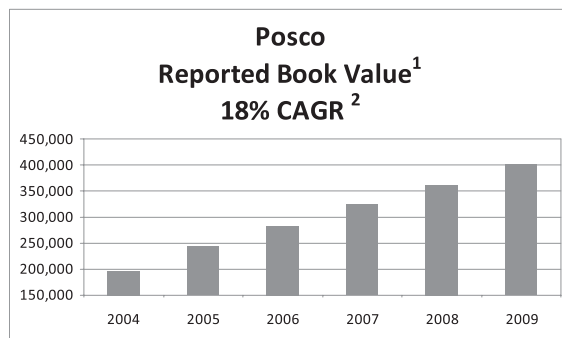
POSCO – 5-YEAR REVIEW

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

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

usually view stock declines owing to weak near-term earnings outlooks as buying opportunities, rather than reasons to sell.

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



¹ In Korean Won per share

² Including dividends

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

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

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

(1) Fiscal year ended March 31st.

(2) Based on trailing 12-month earnings

(3) Tangible Book Value

NM – Not Meaningful since Net Income is negative.

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

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

- Growth of domestic capacity to 41 million tons, from 33 million tons. Posco began expansion of both its Pohang and Gwangyang integrated steel mills in 2008, and the projects should be complete by the end of this year.
- Posco is planning new integrated steel mills in India (12 million tons) and Indonesia (6 million tons). These projects are expected to be completed in stages using Posco's proprietary FINEX technology, which generates significant savings in raw materials.
- The company also has been working on several smaller downstream projects, including a cold rolling mill in Vietnam and automotive steel plants in Mexico and India.

- In May 2010, Posco was named the preferred bidder to acquire a 68% stake in Daewoo International, a leading Korean trading and investment firm. If completed, this transaction would enhance Posco's steel export business and access to raw materials.

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

Economic Data – U.S. versus South Korea

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

(1) Year over year

(2) June 2010

(3) 2009

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

INSIDER BUYING

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

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

We view these purchases as a sign of their continued confidence in the future successes of their companies. Additionally, Martin Whitman and I, the Co-managers of the Fund, each made substantial additional purchases of TAVF Common during the quarter.

TAVF VS. MARKET PARTICIPANTS

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

- **Consistent performance.** Many market participants strive to outperform relative benchmarks consistently

or generate consistently positive absolute returns. Fund Management strives to generate long-term capital appreciation and outperform the relevant benchmarks on average, over the long-term and most of the time. Since inception in 1990, the Fund has generated an average annual return of 12.3%, which is considerably better than the S&P 500 and MSCI World indices returns of 8.6% and 7.0% over the same periods (for a more detailed discussion of TAVF’s more recent outperformance during the decade ended December 31, 2009, see the January 31, 2010 shareholder letter). However, the Fund has not outperformed consistently, as evidenced by its underperformance in 1998-1999 and 2008. Consistent outperformance is not a realistic expectation.

- **Timing the market.** Many investors spend considerable time and effort trying to predict short-term market movements. This “analysis” often focuses on macro events, such as the recent debt crisis in Greece. It appears that the bear market of 2008 heightened most investors’ focus on market risk and many appear to ignore or under-weight bottom-up considerations, which appear to be quite favorable for most of the companies in whose common stocks the Fund is currently invested. Fund Management makes no attempt to time the market; but, rather, focuses on protecting against investment risk, as opposed to market risk. We buy securities that meet our “Safe and Cheap*” criteria when the prices are “good enough” and do not attempt to pick at the bottom.
- **Fees.** Most funds and products on Wall Street appear to be sold, not bought. Many mutual funds are sold with 3-5% sales loads and most hedge funds and private equity funds charge an annual management fee of 1-2% and an incentive fee of 20%. By comparison, TAVF does not charge an incentive fee and has had an

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

annual expense ratio below 1.2% for each of the last five fiscal years.¹

- **Disclosure.** Many market participants, such as hedge funds, provide very limited portfolio disclosure. For mutual funds that are active traders, the required quarterly portfolio disclosure may not be relevant by the time it is received by the investor. Fund Management provides significant disclosure about the Fund, including quarterly shareholder letters and full portfolio disclosure and monthly updates which include the top ten holdings. Additionally, owing to the Fund's very low turnover (14% per year for the most recent decade) the portfolio does not usually undergo dramatic shifts between reporting periods. The average annual mutual fund turnover was 85% according to Morningstar data.
- **Complexity.** Many market participants rely on complex, proprietary models. These can take many forms, including valuation models, such as discounted cash flow models, that are inherently reliant on detailed cash flow projections and other assumptions or short-term trading models, based on variables like momentum and liquidity. TAVF uses a simple and easy-to-understand "Safe and Cheap" common stock investing philosophy. Fund Management buys common stocks of issuers with strong financial positions, competent management teams and understandable businesses with attractive long-term growth prospects when the securities are trading at significant discounts from our estimates of intrinsic value (see preceding analysis of Posco Common for example).
- **Inside information.** Many market participants try to "push the envelope" legally and be the first to learn of potential market-moving information. TAVF's investing approach is based on superior analysis of

publicly available information as opposed to trying to be the first to learn of market-moving news. In fact, based on our buy-and-hold approach and resultant paucity of commissions paid to the Street, we are often among the last to learn of news (e.g., when it is publicly disclosed). As Martin Whitman discusses in his Chairman's Letter this quarter, we use publicly disclosed GAAP and GAAP-like financial statements as objective benchmarks to ascertain what economic reality is. We focus on what the numbers mean, as opposed to what they are.

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

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



Ian Lapey
Co-Portfolio Manager
Third Avenue Value Fund

¹ In 2010, Third Avenue introduced an Investor Class of shares with a 0.25% 12b-1 fee to make the Fund available to virtually all investors (\$2,500 minimum investment).

Third Avenue Small-Cap Value Fund



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

Dear Fellow Shareholders:

At July 31, 2010, the end of the Fund's fiscal third quarter, the unaudited net asset value attributable to the 58,725,055 common shares outstanding of the Third Avenue Small-Cap Value Fund Institutional Class shares ("Small-Cap Value" or the "Fund") was \$18.05 per share, compared with the Fund's unaudited net asset value of \$19.41 per share at April 30, 2010, and an unaudited net asset value at July 31, 2009 of \$15.99 per share, as adjusted for a subsequent distribution to shareholders. At August 23, 2010, the unaudited net asset value was \$17.32 per share.

QUARTERLY ACTIVITY

During the quarter, Small-Cap Value established five new positions, added to eight of its 61 existing positions, eliminated two positions and reduced its holdings in 21 companies. At July 31, 2010, Small-Cap Value held positions in 52 common stocks, the top 10 positions of which accounted for approximately 32.4% of the Fund's net assets.

Number of Shares or Rights	New Positions Acquired
305,053 shares	Broadridge Financial Solutions, Inc. Common Stock ("Broadridge Common")
677,350 shares	Ingram Micro Inc. Class A Common Stock ("Ingram Common")
529,647 shares	MEMC Electronic Materials, Inc. Common Stock ("MEMC Common")
322,646 rights	Tejon Ranch Co. Rights ("Tejon Rights")
59,995 shares	UniFirst Corp. Common Stock ("UniFirst Common")
100,000 shares	Wilmington Trust Corp. Common Stock ("Wilmington Common")
	Increases in Existing Positions
27,622 shares	Bristow Group, Inc. Common Stock ("Bristow Common")
59,532 shares	Electronics for Imaging, Inc. Common Stock ("EFI Common")
67,500 shares	HCC Insurance Holdings, Inc. Common Stock ("HCC Common")
43,500 shares	Liberty Media Corp. – Starz Common Stock ("Starz Common")
8,500 shares	P.H. Glatfelter Company Common Stock ("Glatfelter Common")
25,000 shares	Sycamore Networks, Inc. Common Stock ("Sycamore Common")
32,500 shares	Viterra, Inc. Common Stock ("Viterra Common")
24,800 shares	Westlake Chemical Corp. Common Stock ("Westlake 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 July 31, 2010: Viterra, Inc., 4.05%; Alexander & Baldwin, Inc., 4.01%; Sapporo Holdings, Ltd., 3.54%; Parco Co., Ltd., 3.15%; Synopsys, Inc., 3.12%; Lanxess AG, 3.06%; Kaiser Aluminum Corp., 3.04%; National Western Life Insurance Co., 2.82%; Ackermans & van Haaren NV, 2.81%; and Tidewater, Inc., 2.80%.

Number of Shares	Positions Reduced	Number of Shares, Units, Rights or Face Amount	Positions Reduced (continued)
50,848 shares	Ackermans & van Haaren N.V. Common Stock ("AvH Common")	1,881,000 shares	Sapporo Holdings Ltd., Common Stock ("Sapporo Common")
39,281 shares	Alamo Group, Inc. Common Stock ("Alamo Common")	216,500 shares	Synopsys, Inc. Common Stock ("Synopsys Common")
48,598 shares	Alexander & Baldwin, Inc. Common Stock ("Alex Common")	100,000 shares	Tellabs, Inc. Common Stock ("Tellabs Common")
1,700 shares	Alico, Inc. Common Stock ("Alico Common")	297,200 units	Timberwest Forest Corp – Stapled Units ("Timberwest Units")
369,044 shares	Brookfield Asset Management, Inc. Common Stock ("Brookfield Common")	671,686 shares	Wacker Neuson SE Common Stock ("Wacker Common")
95,000 shares	Cimarex Energy Co., Common Stock ("Cimarex Common")		Positions Eliminated
4,200 shares	E-L Financial Group, Ltd. Common Stock ("E-L Financial Common")	88,767 shares	Genesee & Wyoming, Inc. Common Stock ("Genesee Common")
60,061 shares	Electro Scientific Industries Inc. Common Stock ("ESI Common")	\$25,459,990	Swift Transportation Term Loan B Due May 10, 2014 ("Swift Term Loan")
15,900 shares	Investment Technology Group, Inc. Common Stock ("ITG Common")	322,646 rights	Tejon Ranch Co. Rights ("Tejon Rights")
49,281 shares	Kaiser Aluminum Corp. Common Stock ("Kaiser Common")		
22,179 shares	K-Swiss, Inc. Common Stock ("K-Swiss Common")		
381,527 shares	Lanxess AG Common Stock ("Lanxess Common")		
9,856 shares	National Western Life Insurance Co. Common Stock ("NWLI Common")		
677,500 shares	Parco Company Ltd., Common Stock ("Parco Common")		
64,614 shares	Park Electrochemical Corp. Common Stock ("Park Common")		
10,000 shares	Pharmaceutical Product Development, Inc. Common Stock ("PPDI Common")		

QUARTERLY ACTIVITY

Fund Management took advantage of generally volatile market conditions¹ during the most recent quarter to initiate, by varying degrees, five new positions in the Small-Cap Fund. Two of the larger additions, Broadridge Common and Ingram Common, are discussed in some detail below. Two other new positions, MEMC Common and Wilmington Common, represent "toehold" positions, small positions that will likely remain relatively underweighted barring a significant change in valuation, reflecting both our views about the business risk attached to those companies (i.e., "high beta" investments) and our opportunistic investment approach. Market volatility combined with positive underlying business developments translated into price appreciation in a number of cases, allowing Fund Management to selectively reduce position

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

sizes, with two holdings being eliminated altogether. In sum, we attempted to use the volatile conditions during the quarter to recycle capital from fully priced “merchandise” into more significantly discounted investments with attractive long-term prospects.

Broadridge Financial is a leading global provider of investor communications services and technology-based securities processing solutions. Broadridge Common had been added to Fund Management’s “inventory” of ideas following its spinoff in 2007 from Automatic Data Processing. Modest overvaluation and a significant debt load post spinoff deterred us from adding it to the Fund at that point. Two recent developments, however, caught our attention and compelled us to take a fresh look at the company. In addition to a considerable decline in its share price this year, the company announced its intention to exit a capital-intensive and money losing securities clearing business. In our view, disposal of the clearing business introduces a number of positive elements as it i) liberates a large chunk of previously committed capital; ii) further improves the balance sheet; iii) reduces overall business risk; and iv) under terms of the deal with the buyer, adds heft to a revenue stream in an area that management intends to grow. In addition we noticed a number of other positive developments since our original review, including a markedly improved balance sheet (i.e., debt reduction) and implementation of a shareholder friendly share repurchase program². Lastly, the business evidenced a fair degree of resilience, having held up reasonably well during the financial crisis. During the quarter, management closed the clearing business transaction, emboldening us to initiate our position. All along we have been attracted to the company’s cash generating capabilities, relatively stable margins and dominate market shares in areas such as shareholder proxy communications and securities-related outsourcing services to the world’s largest financial

institutions – characteristics that might even be attractive to a financial or strategic buyer.

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

Fund Management had been familiar with Ingram Common, having previously owned it in the Fund. Ingram is the world’s largest distributor of Information Technology (“IT”) products and services and lies squarely in the heart of the technology “food chain.” We view the company’s shares as a conservative and technology-agnostic means of participating in the cyclically-tinged growth that generally characterizes the technology sector. Subsequent to our sale of the shares a little more than two years ago, we kept tabs on the company as part of our inventory. In the intervening period since our ownership, a number of things have happened. For one, the balance sheet has improved with regard to overall quality and strength. Specifically, two years ago all the goodwill was written off, there is no more off-balance sheet financing, and the company enjoys a net cash position of more than \$540 million (representing 20% of the company’s market capitalization). Importantly, it appears industry competitive conditions have moderated. Despite operating on razor thin margins (think of it like a grocery store, but with different product shelf lives) the company has generally prospered, remaining nicely profitable in eight of the last 10 years.³ Tangible book value per share has compounded at roughly 10% annually during

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

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

the past five years. The Fund's cost basis represents a modest discount to tangible book value (a very crude proxy for business value) and equates to approximately nine times to 10 times current earnings and six and one-half times 10-year average EBIT⁴. At these undemanding valuations, the share price would appear to have limited downside, and with ample financial flexibility, management has an excellent opportunity to return a fair amount of capital to shareholders on economically attractive terms in the form of share repurchases. Were the valuation to revert within the next year or two to its historic premium to GAAP book value, the Fund would realize a low-to-mid-teens type of return.

The Fund's investment in distressed debt securities, initiated during the depths of the financial crisis in late 2008, was significantly reduced during the quarter – to a little less than 3% of Fund assets – owing to the complete disposition of the Fund's very successful Swift Term Loan investment, in which the Fund realized an internal rate of return of 57%. More importantly perhaps from our perspective, is that our investment thesis largely played out, evidenced by that company's well-managed operating results during the economic downturn. A recent S-1 filing with the SEC signals that management would like to return the company back to the public markets, a positive development for the small remaining investment the Fund holds in the form of an unfunded secured bank revolver.

UNCERTAINTY AND FIXED-INCOME FEVER

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

savings out of U.S. equities and allocate them to the perceived safety of fixed-income instruments, particularly for government obligations. But will investors' seemingly high expectations for fixed-income returns, especially for government obligations, be met? "Fixed-Income Fever" has manifested itself in any number of ways:

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

It is perplexing to think that investors/speculators continue to provide so much cheap capital to governmental issuers whose finances, generally speaking, can only be described as horrific. As one observer put it, "Borrow more to pay less, is still working brilliantly for the U.S. government." Perversely, lower interest rates make it easier for our government to ignore much needed structural change in

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

the way it does business. We do not have a crystal ball that lets us look into the future and we shy away from predictions about the same. Selective opportunities still exist within the broad fixed-income asset class, e.g., High Yield. But Fixed-Income Fever, particularly the strain that creates an insatiable desire for U.S. Treasuries, appears to represent an increasingly crowded trade, one that has the contrarian in me smelling a whiff of trouble. The price-appreciation of 10-year Treasuries, for example, has driven down yields so far that somebody buying them now has little reason to expect the returns enjoyed by investors over the last three, five or 10 years. When Treasury yields were last this low in the mid 1950s, the subsequent return for bonds was 1.9%, just barely ahead of inflation. Buyer beware: it seems there's not much gas left in the Treasury tank. Treasuries have nothing much behind them, except for the government as a very motivated seller. While politicians might pay lip service to the idea of putting the government's fiscal affairs in order, St. Augustine's plea "Lord, make me chaste, but not yet," better describes the motivating emotions at Treasury.

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

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

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

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

Sincerely,



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

Third Avenue Real Estate Value Fund



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

Dear Fellow Shareholders:

At July 31, 2010, the end of the third fiscal quarter of 2010, the unaudited net asset value attributable to the 72,938,923 shares outstanding of the Third Avenue Real Estate Value Fund Institutional Class shares (the "Fund") was \$21.00 per share. This compares with an unaudited net asset value of \$21.83 per share at April 30, 2010, and an unaudited net asset value of \$17.77 per share at July 31, 2009, adjusted for subsequent distributions to shareholders. At August 23, 2010, the unaudited net asset value was \$20.59 per share.

QUARTERLY ACTIVITY

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

Number of Shares	New Positions Acquired	Principal Amount, Number of Shares, Units, Rights or Contracts	New Positions Acquired (continued)
800,000 shares	Klepierre Common Stock ("Klepierre Common")	2,508,431 shares	Prologis European Properties Common Shares ("PEPR Common")
850,000 shares	Lennar Corp. Common Stock ("Lennar Common")	95,600 shares	Unibail-Rodamco SE Common Stock ("Unibail Common")
		655,461 shares	Weyerhaeuser Company Common Stock ("Weyerhaeuser Common")
		5,000 contracts written	Lennar Corp. August 2010 \$16 Puts ("Lennar August \$16 Puts")
		5,000 contracts written	Lennar Corp. August 2010 \$17 Puts ("Lennar August \$17 Puts")
		5,000 contracts written	Prologis June 2010 \$11 Puts ("Prologis June \$11 Puts")
		14,950 contracts written	Prologis August 2010 \$10 Puts ("Prologis August \$10 Puts")
		9,967 contracts written	Prologis October 2010 \$10 Puts ("Prologis October \$10 Puts")
		2,980 contracts written	Public Storage September 2010 \$75 Puts ("Public Storage Puts")
		785,584 rights	Tejon Ranch Co. Rights ("Tejon Rights")
		3,000 contracts written	Weyerhaeuser July 2010 \$41 Puts ("Weyerhaeuser Puts")
		\$8,000,000 contribution	Increases in Existing Positions
			Alliance Bernstein Legacy Securities (C 1) Fund L.P.
			Limited Partnership Interest ("Alliance Bernstein LP Interest")
		265,185 shares	Berkeley Group Holdings PLC Common Stock ("Berkeley Common")

* 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 July 31, 2010: Forest City Enterprises, Inc., 6.78%; Henderson Land Development Co., Ltd., 6.01%; Brookfield Asset Management, 5.93%; Vornado Realty Trust, 4.59%; Hammerson PLC, 4.08%; Capitaland, Ltd., 3.77%; Wheelock & Co., Ltd., 3.59%; Newhall Holding Co. LLC, 3.35%; Sun Hung Kai Properties, Ltd., 2.90%; and Hysan Development Co., Ltd., 2.72%.

**Principal Amount,
Number of Shares
or Contracts**

7,000,000 shares

3,500,000 shares

1,012,000 shares

6,334,196 shares

156,043 shares

\$10,000,000

1,429,000 shares

10,815 shares

\$10,000,000

\$14,000,000

\$5,000,000

20,845,000 shares

5,000 contracts expired

6,250 contracts sold

**Increases in Existing Positions
(continued)**Capitaland Ltd. Common Stock
("Capitaland Common")Hammerson plc Common Stock
("Hammerson Common")Henderson Land Development Co. Ltd.
Common Stock
("Henderson Common")Songbird Estates Plc Common Stock
("Songbird Common")Tejon Ranch Company Common Stock
("Tejon Common")**Decreases in Existing Positions**Prologis 1.875% Convertible Senior
Notes Due November 2037
("Prologis 1.875% Senior Notes")Hang Lung Properties Ltd.
Common Stock ("Hang Lung Common")Thomas Properties Group, Inc.
Common Stock ("Thomas Common")**Positions Eliminated**Developers Diversified Realty
3.5% Convertible Senior
Notes due August 2011
("Developers Senior Notes")Prologis 2.25% Convertible
Senior Notes Due April 2037
("Prologis 2.25% Senior Notes")Prologis 2.625% Convertible
Senior Notes Due May 2038
("Prologis 2.625% Senior Notes")Wheelock Properties Ltd.
Common Stock ("Wheelock Common")ProLogis June 2010 \$11 Puts
("ProLogis June \$11 Puts")Vornado Realty Trust
June 2010 \$75 Puts ("Vornado Puts")**Number of Contracts**

3,000 contracts exercised

**Positions Eliminated
(continued)**Weyerhaeuser July 2010 \$41 Puts
("Weyerhaeuser Puts")**DISCUSSION OF SIGNIFICANT QUARTERLY ACTIVITY**

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

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

company retains adequate capital to continue creating additional value for shareholders by building out its well-located development projects and further solidifying its dominant European mall platform.

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

The Fund opportunistically initiated small positions in Unibail Common and Klepierre Common during a period of turmoil in Europe when the equity markets and the Euro both declined to recent lows. Both stocks were acquired at discounts to NAV, with the expectation that if the near-term situation in Europe worsened, there would likely be an opportunity to acquire more at cheaper prices. Since acquiring the stocks, Unibail Common and Klepierre Common have appreciated 25.8% and 17.6%, respectively (including appreciation of the Euro versus the Dollar), so it remains to be seen if the Fund will get an opportunity to buy more at the "right" price. At quarter-end, Unibail Common and Klepierre Common represent 1.2% and 1.6% of the Fund's net assets, respectively.

ProLogis European Properties ("PEPR") is a closed-end fund that was listed by U.S.-based REIT ProLogis in 2006 (ProLogis owns 33% of PEPR Common). PEPR owns 230 industrial properties comprising more than 50 million square feet of space in Continental Europe and the UK. The portfolio is 94% leased (primarily to credit tenants) and is predominantly located in key distribution markets within France, Germany and the UK. Fund Management has monitored PEPR for several years since it represents a meaningful percentage of ProLogis' NAV. While PEPR was known to have a high-quality collection of industrial properties in Continental Europe, it was never of much interest to Fund Management since (a) PEPR Common has historically traded in-line with NAV; (b) the assets are stabilized industrial properties with limited growth potential; and (c) the company distributed nearly all of its free cash flow, which limited value-creating activities. In 2009, PEPR's portfolio was revalued downward and the company was forced to sell assets, issue dilutive capital and cancel its dividend to stabilize its financial position. PEPR's financial position is now greatly improved and its assets continue to generate solid cash flows. With its improved financial position, the company should soon receive an investment grade credit rating, which could reduce its interest costs and enable the company to reinstate its dividend. This would likely act as a catalyst to close the 30% discount between the trading price of PEPR Common and its stated NAV. ProLogis recently increased its stake in PEPR from 25% to 33%. If the discount to NAV persists, it is not inconceivable that ProLogis would be interested in acquiring 100% ownership at a premium to the market price.

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

Lennar is the fifth largest homebuilder in the U.S., with a large presence in Texas, Florida and California. Fund Management has monitored the company and its management team closely for many years. (The Fund previously held Lennar Common several years ago). The last few years have clearly been difficult for the industry, but Lennar has battled through the economic headwinds and repositioned the company to benefit as conditions improve. When they do, Lennar should be one of the most profitable builders – having already marked down its inventory to low values while opportunistically acquiring a number of new home sites in key markets (e.g., California) over the past few years at bargain prices. It is uncertain when Lennar will start booking profits from its homebuilding business, but it has the cash to ride out current conditions and, in the meantime, it has reinvented its former distressed real estate business under the Rialto banner. As background, in the early 1990's Lennar formed LNR as a business line to invest in distressed loans. The subsidiary was eventually spun-off to Lennar shareholders in 1997 and went on to become the largest special servicer of commercial loans. LNR common stock was one of the Fund's largest holdings from 1998 to 2005 when it was acquired by Cerberus for \$4.4 billion (representing a large premium for shareholders). Rialto, which is run by Jeff Krasnoff, the former CEO of LNR, is undertaking the same types of investments that LNR originally pursued. In a recent transaction, Rialto took a stake alongside the FDIC in a \$3.0 billion distressed loan portfolio. As Rialto begins to realize profits from some of these opportunistic investments and the company's homebuilding operations return to profitability, Lennar is positioned to once again create meaningful value for shareholders. The Fund acquired Lennar Common at \$17.70 per share (representing a discount to adjusted book value). In addition, the Fund sold out-of-the-money put options expiring on August 21, 2010 on 500,000 shares with a strike price of \$17 and 500,000 shares with a strike price of \$16. The Fund received premiums of approximately \$1.8 million. Assuming Lennar Common is trading below

\$16 at the expiration date, the Fund will acquire an additional 1 million shares at an average cost of \$14.72 per share (including the premiums received).

Weyerhaeuser is a U.S.-based forest products company that is refocusing its business on its key asset: a 5.8 million acre timber portfolio with 2.1 million acres of prime timberlands in the Pacific Northwest. The company's timber assets are considered to be the highest quality portfolio on a global basis. Over the past few years, management has divested its containerboard and fine paper businesses and most recently announced that it would elect REIT status to become more tax efficient. Long term, the benefits of making this conversion are quite favorable as the company will generally avoid corporate income tax on that portion of the capital gain or ordinary income from its REIT operation that is distributed to its shareholders. Furthermore, dividends from timber REITs are largely treated as long-term capital gains, as opposed to ordinary income (like most REIT dividends). In order to convert to a REIT, Weyerhaeuser is required to distribute its retained earnings and profits via a special dividend – which is estimated to be \$5.6 billion. The distribution is scheduled to be paid on September 1st and will be paid 90% in stock and 10% in cash. After Weyerhaeuser completes the REIT conversion process, it will be on the same playing field as its key competitors, e.g., Plum Creek and Rayonier, which should assist in eliminating the meaningful discount at which the company's shares currently trade relative to its NAV and peers. Fund Management believes the company's NAV could increase considerably when U.S. housing starts pick up from current levels. Not only will the company's prime timberlands benefit from realizing greater harvest levels and higher prices, but the company's other businesses – such as the wood products and homebuilding business – would also meaningfully contribute to the company's profitability, despite not being assigned any value in the public markets at current prices. The Fund initially acquired Weyerhaeuser Common at an average cost of \$42.87 per share. In addition, the Fund sold out-of-the-money put options expiring on July 17, 2010 on 300,000

shares with a strike price of \$41, receiving a premium of \$2.58 per share. On the expiration date, Weyerhaeuser Common closed at \$40.50 (below the strike price) and 300,000 shares were put to the Fund at the \$41 strike price. The Fund's net price, including the premium received, was \$38.42 per share.

In addition to the new positions noted above, the Fund put some of its cash reserves to work as market volatility presented the opportunity to add to existing positions at discounted prices, including Berkeley Common, Capitaland Common, Hammerson Common, Henderson Land Common, NTT Urban Common, Songbird Common and Tejon Common. The increase in Tejon Common was the result of the Fund subscribing to a rights offering in which the company raised \$60 million by selling common shares. In the rights offering, the company issued transferable rights to all shareholders, giving each holder the right to subscribe pro rata to purchase shares at \$23, which represented a discount to the market price when the offering was announced. Each shareholder that fully subscribed was also entitled to oversubscribe for additional shares at \$23 (the company issued total rights for \$50 million and had the option to fill oversubscriptions for up to an additional \$10 million). The Fund exercised all of its rights and oversubscribed for additional shares. The offering was very well received and oversubscribed by more than 5 million shares (\$115 million). Fund Management fully supported the company's efforts to conduct the rights offering, which was done without the assistance or expenses normally incurred by companies that retain investment banks to raise equity. Assuming a typical bank underwriting fee of 7%, the company saved about \$4 million. Fund Management believes that more

U.S. companies should consider rights offerings instead of underwritten public offerings, as they are far less costly (no commissions paid to bankers) and they allow all shareholders to avoid being diluted – they can either sell their rights in the open market or buy additional shares at the offering price (usually at a discount to the trading price) and maintain their percentage ownership.

The Fund also reduced or eliminated several of its performing debt securities, including ProLogis 1.875%, 2.25% and 2.625% Senior Notes and Developers Senior Notes. Each of these securities was acquired during the fourth quarter of 2008 at distressed prices. Over the holding period, the Fund earned annualized yields on the securities of approximately 41% to 73%.

HEADS, I WIN – TAILS, I WIN

In addition to selling the put options noted above (Lennar and Weyerhaeuser), the Fund sold:

- Public Storage September 2010 \$75 Puts on 298,000 shares for a premium of \$2.78 per share. On July 30, 2010 Public Storage common closed at \$98.12.
- ProLogis June 2010 \$11 Puts on 500,000 shares for a premium of \$0.55 per share. On the expiration date, Prologis Common closed at \$11.54 (above the strike price) and no shares were put to the Fund.
- ProLogis August 2010 \$10 Puts on 1,495,000 shares for a premium of \$0.51 per share.
- ProLogis October 2010 \$10 Puts on 996,700 shares for a premium of \$0.70 per share.

The Fund has taken advantage of its large cash position and increased volatility in the stock market by selling out-of-the-money put options on common stocks that it would be happy to acquire – but at substantially lower prices than

“The Fund has taken advantage of its large cash position and increased volatility in the stock market by selling out-of-the-money put options on common stocks that it would be happy to acquire – but at substantially lower prices than available in the market.”

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

As noted in the recent Letters to Shareholders, the Fund has been carrying larger-than-normal cash balances in order to take advantage of opportunities that may arise in global real estate securities. Those opportunities have been slow to materialize, but as evidenced by the recent quarter’s activity, the Fund’s cash reserves are proving to be useful. Without its significant cash reserves, the Fund would not

be able to employ the above noted option strategy. Selling out-of-the-money put options would be a highly risky strategy, if the Fund did not have the ability to purchase all of the securities it could potentially be obligated to on or before the expiration of the put options. At quarter-end, the Fund had approximately \$260 million of cash and equivalents (17% of Fund net assets) and the potential obligation (between August and October 2010) of approximately \$64 million (4.1% of Fund net assets) to buy securities. In Fund Management’s view, the option strategy is advantageous for two reasons: (1) if the options expire out-of-the-money, the Fund earns the premium which represents a very attractive yield on cash that is otherwise earning close to zero; and (2) if the shares are put to the Fund, the Fund is acquiring the shares below its “buy price” after netting the premiums against the strike price.

To illustrate the theoretical yield based on premiums received, the following table shows each put option sold by the Fund during the quarter, the premium received, the potential obligation to buy securities if the options are exercised and the annualized yield that the premiums represent on the potential obligations if the options expire out of the money.

	<u>Date Sold</u>	<u>Expiration Date</u>	<u>Premium Received</u>	<u>Potential Obligation</u>	<u>Annualized Yield</u>
Lennar August \$16 put	5/20/2010	8/21/2010	\$791,500	\$ 8,000,000	38.8%
Lennar August \$17 put	5/20/2010	8/21/2010	\$992,950	\$ 8,500,000	45.8%
ProLogis June \$11 put	5/14/2010	6/19/2010	\$272,250	\$ 5,000,000	55.2%
ProLogis August \$10 put	6/24/2010	8/21/2010	\$757,201	\$14,950,000	31.9%
ProLogis October \$10 put	7/29/2010	10/16/2010	\$687,572	\$ 9,967,000	31.9%
Public Storage Sept. \$75 put	5/24/2010	9/18/2010	\$834,000	\$22,350,000	11.6%
Weyerhaeuser July \$41 put	5/20/2010	7/17/2010	\$774,000	\$12,300,000	39.6%

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

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

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

- Utilize low-risk options including selling covered calls and out-of-the-money puts.

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

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

Sincerely,



Michael H. Winer
Portfolio Manager

Third Avenue International Value Fund



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

Dear Fellow Shareholders:

At July 31, 2010, the unaudited net asset value attributable to the 92,387,484 shares outstanding of the Third Avenue International Value Fund Institutional Class shares (the "Fund") was \$14.71 per share, compared with the Fund's unaudited net asset value at April 30, 2010 of \$15.58 per share, and an unaudited net asset value of \$14.09 per share at July 31, 2009, adjusted for the distribution of \$0.18 per share. At August 23, 2010, the unaudited net asset value was \$14.53 per share.

QUARTERLY ACTIVITY

In the most recent quarter, the Fund established four new positions, added to positions in the common shares of seven companies, reduced holdings in common shares of two companies and eliminated one position.

Number of Shares

1,077,607 shares

259,961 shares

New Positions Acquired

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

Nexans S.A. Common Stock
 ("Nexans Common")

Number of Shares or Rights

485,486 shares

17,393,600 rights

215,529 shares

93,781 shares

252,901 shares

90,605 shares

13,425 shares

49,046 shares

28,646 shares

77,750 shares

66,250 shares

1,649,795 shares

New Positions Acquired (continued)

ProLogis European Properties Shares
 ("ProLogis European Shares")

Resolution Limited Rights
 ("Resolution Rights")

Increases in Existing Positions

Alma Media Corp. Common Stock
 ("Alma Common")

Andritz AG Common Stock
 ("Andritz Common")

Cenovus Energy, Inc. Common Stock
 ("Cenovus Common")

EnCana Corporation Common Stock
 ("EnCana Common")

GlaxoSmithKline PLC Common Stock
 ("GSK Common")

L. E. Lundbergforetagen AB
 Common Stock
 ("Lundbergs Common")

Resolution Limited Common Stock
 ("Resolution Common")

Decreases in Existing Positions

Antarchile S.A. Common Stock
 ("Antarchile Common")

LG Corp. Common Stock
 ("LG Common")

Position Eliminated

Brit Insurance Holdings NV
 Common Stock ("Brit 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 July 31, 2010: WBL Corp., Ltd., 9.14%; Netia S.A., 5.83%; Viterra, 5.16%; Allianz SE, 2.97%; Yuanta Financial Holding Co., Ltd., 2.77%; United Microelectronics Corp., 2.75%; Guoco Group, Ltd., 2.75%; Sampo Oyj, 2.75%; Munich Re, 2.69%; and Compagnie Nationale A Portefeuille, 2.67%.

REVIEW OF QUARTERLY ACTIVITY

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

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

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

Atrium stands out in its field for its unusually strong balance sheet, with net debt representing less than 2% of total assets. The company is actively searching through the

rubble of distressed property markets for hidden gems; it has plenty of available financial firepower and development expertise to take on projects abandoned by weaker competitors. The current valuation implies a double-digit capitalization rate, while ignoring potentially attractive investment opportunities available to the company in Central and Eastern European markets.

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

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

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

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

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

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

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

financing costs and increase the likelihood that the dividend might be reinstated.

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

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

The wait ended in the middle of June 2010 when Resolution announced that it would buy 90% of the U.K. life insurance subsidiary of AXA, the French-based global insurance conglomerate. After the acquisition, Resolution will become the third largest life insurance company in the U.K., with particular strength in corporate pensions. Preliminary due diligence revealed potential cost synergies of 16% of the combined company's cost base, mostly coming from streamlining sales, customer service, operations, and IT infrastructure. Further financial and tax synergies are possible. The acquisition was priced at a 25-30% discount to run-off value, a seemingly attractive price

which does not include the value of synergies or the expected capital release of almost one-third of the acquisition price.

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

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

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

to underwriting insurance meant that it could be buffeted by considerable adversity before its survivorship would be in question.

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

A PRIMER ON RIGHTS ISSUES

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

Rights issues can best be described as placements of shares open to all existing shareholders. In a standard rights issue transaction, each shareholder as of the record date receives a pro rata number of "rights" or warrants to buy newly issued shares (or any other security) at a predetermined exercise price (usually at a large discount to the current

price). The shareholder then decides whether to exercise the rights by buying the newly issued shares, or to sell the rights instead. The subscribing shareholders maintain their proportionate holding in the company.

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

As long as the rights issue is priced at a meaningful discount to the stock price, and the rights are tradable, there is little risk of failing to raise the required amount. While rights issues are often underwritten by investment banks and/or backstopped by cornerstone investors, their capital commitments are rarely drawn upon should the exercise price be set at an appropriate level of discount. Even in the depths of the financial crisis, rights issues by troubled U.K. banks, such as Royal Bank of Scotland plc, saw 95-97% participation rates.

In North America, rights issues are relatively uncommon. We suspect that part of the reason for this is the fact that investment banks collect smaller fees on rights issues;

therefore, investment bankers tend to deploy their considerable persuasive abilities to steer companies toward private placements which are generally more lucrative from the bankers' perspective. Another bias against rights issues in North America is the perception that only distressed companies raise money in this manner, because their investment bankers cannot find anyone to subscribe to a private placement.

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

The final blemish on the reputation of rights issues by foreign companies in the eyes of United States investors comes as an unintended consequence of the Securities Act of 1933. Non-U.S. companies often exclude U.S. investors from participating in their rights issues because the

transaction is construed as an offering of securities subject to SEC regulations and registration requirements. Rather than go through a lengthy security registration process, non-U.S. companies prefer to not offer the rights to U.S. residents. This is, in practice, much less of a problem than it might seem. U.S. institutional investors (such as the Fund) who meet the definition of "Qualified Institutional Buyer" under Rule 144A of the 1933 Securities Act, as well as private investors meeting the definition of "Qualified Purchaser" under the Investment Company Act of 1940,

“The Fund has, over the years, participated in a number of rights offerings that were used to raise funds for a variety of reasons, including refinancing of debt (WBL Corp. in 2009), strengthening the balance sheet (Rubicon Ltd. in 2010), and paying for acquisitions (Catalyst Paper for the purchase of the newsprint mill in Snowflake, Arizona in 2008). ”

can and do participate in rights issues of non-U.S. companies without triggering the registration requirements. Those U.S. shareholders who do not meet either of these two qualifications can instead sell their rights and use the proceeds to purchase additional shares in the company, thus offsetting dilution.

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

GEOGRAPHICAL DISTRIBUTION OF INVESTMENTS*

At the end of July 2010, the geographical distribution of securities held by the Fund was as follows:

	% of Net <u>Assets</u>
Canada	11.91
Japan	10.76
Singapore	9.78
Poland	5.83
Germany	5.66
Taiwan	5.53
Hong Kong	5.35
United States	4.61
France	3.48
United Kingdom	3.34
Finland	3.13

	% of Net <u>Assets</u>
New Zealand	3.02
Austria	2.83
Belgium	2.67
Chile	2.52
South Korea	2.42
Sweden	2.04
Denmark	0.99
Netherlands	0.19
Equities—total	<u>86.06</u>
Cash & Other	<u>13.94</u>
Total	<u>100.00</u>

** Note that the preceding table 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.*

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

Sincerely,



Amit Wadhwaney
Portfolio Manager,
Third Avenue International Value Fund

Third Avenue Focused Credit Fund



JEFF GARY
PORTFOLIO MANAGER OF THIRD AVENUE
FOCUSED CREDIT FUND

Dear Fellow Shareholders:

At July 31, 2010, the unaudited net asset value attributable to the 59,534,308 shares outstanding of the Third Avenue Focused Credit Fund Institutional Class shares was \$10.90 (which reflects a dividend of \$0.185 paid to shareholders on June 22nd), compared with the Fund's unaudited net asset value at April 30, 2010 of \$11.06. At August 23, 2010, the unaudited net asset value was \$10.94 per share.

PERFORMANCE

The Third Avenue Focused Credit Fund (the "Fund") returned 0.27% for the fiscal quarter and 6.89% year to date through July 31, 2010.

The Fund's flexible mandate allows us to invest in various debt securities, including leveraged loans and high-yield bonds. Leveraged loans, in general, had a tough quarter. The CSFB Leveraged Loan index underperformed the Barclay's High Yield index by approximately 200 basis points in July and by nearly 350 basis points year to date. The returns for the CSFB Leveraged Loan index were -0.90% and 4.7% and the returns for the Barclay's High

Yield index were 1.08% and 8.2% for the quarter and year to date, respectively.

In the high-yield market, the top performing sectors so far this year included: Financial Institutions, 15.5%; Airlines, 11.4%; Gaming, 11%; and Transportation, 10.4%. The worst performing sectors for the year included: Electric Utilities, 1.1%; Supermarkets, 2.1%; Technology, 3.4%; and Oil Services/Refining, 4.4%. Returns by rating category for the high-yield index continue to be led by BB-rated issues at 8.8%, followed by CCC-rated issues at 7.8% and then B-rated issues at 7.0%

Part of our current strategy includes increasing the portfolio's exposure to higher quality credits given our cautious view of several macroeconomic issues, which we discussed in our April letter. During the quarter we purchased several higher quality credits, adding 5.5 percentage points to our weighting in bonds rated BB or higher. These investments, including Case New Holland, CF Industries, Frontier Communications and Consol Energy, contributed positively to our performance. Other positive contributors included Anadarko Petroleum, Spectrum Brands, Dyncorp, TransUnion and Compton Petroleum. In addition, our underweight positioning in the electric utility and technology sectors was a positive contributor.

Negative contributors to performance during the quarter included several of our bank loan positions, including TXU, Marsico, Dex One and First Data. Post reorganization equities also detracted from performance, as this category of securities posted significant losses in the quarter; however, they comprise a very small percentage of the portfolio. These included Dex One and Stallion Oilfield Services. Other

* Portfolio holdings are subject to change without notice. The following is a list of Third Avenue Focused Credit Fund's 10 largest holdings by issuer, as of July 31, 2010: Hertz Corp., 3.37%; CIT Group Inc., 2.90%; Lyondell Chemical Company, 2.85%; Nuveen Investments, In., 2.74%; Aveos, 2.56%; CF Industries, Inc., 2.45%; Clear Channel Communications, Inc., 2.36%; FMG Finance Ltd., 2.35%; Harrahs Operating Co., 2.32%; and Swift Transportation, 2.21%.

specific credits that underperformed included: Ainsworth, Blockbuster and Fortescue. The latter was negatively impacted by Australia's announcement to impose a super-tax on natural resources, which has since been modified to not be as egregious as originally planned, and these bonds have recouped their losses in August.

QUARTERLY ACTIVITY

Significant New Positions

American Capital Revolver
Anadarko Petroleum Bonds
CF Industries Bonds
Cincinatti Bell Bonds
Dyncorp International Bonds
GMAC/Ally Preferred Stock
Harrahs Term Loan
Hicks Sports Term Loan
Inventiv Health Bonds
Lehman Brothers Holding, Inc. Bonds
Transunion Bonds

Significant Increases in Existing Positions

Biomet Bonds
Clear Channel Bonds
First Data Term Loan
Frontier Communications Bonds
Hertz Corp. Bonds
Nuveen Investments Bonds

Significant Reductions in Position Size

CIT Group Bonds
Cengage/TL Acquisition Term Loan
Swift Transportation Term Loan

Positions Eliminated During the Quarter

Capmark Financial Bonds
Rite Aid Corp. Bonds
Spectrum Brands Bonds
Trico Marine Bonds
Tronox Corp Term Loan
World Color Press Term Loan

As we outlined in last quarter's shareholders' letter, there were several factors that gave us reason to be cautious regarding the economy, most of which are secular and

longer term in nature and all point to slower than expected growth compared to forecasts made in late April. Over the past six to eight weeks, there has been increasing data that points to the slowdown that we had anticipated in the U.S. and other developed nations' GDP growth. This included the disappointing data on U.S. employment, manufacturing and housing. Many economists and investment banks have ratcheted down their forecasts for economic growth; several now forecast 2% or lower GDP growth. Forecasts for Treasury yields at year-end are now as low as 2.5% on the 10-year Treasury, based on slower growth and benign inflation.

Riskier asset classes, which include stocks, commodities and corporate credits, sold off during the majority of May and June due to many of these concerns. In early July, the European Union disclosed that they would expand the number of banks to be included in their stress tests and they would attempt to make them relatively transparent. This gave the market more confidence and allowed risk asset classes to recover some of their losses.

In late July, there was positive news out of Europe that the stress tests for the banks were completed and concluded that a lower than forecasted amount of capital was needed to properly capitalize the banks. The high-yield market posted a return in excess of 3% in the month of July.

As a result of this rally, a number of our investments exceeded our fair value estimates and we reduced a number of positions, including CIT and Swift; and we completely sold out of several other positions, including Rite Aid and Tronox. As a result, the Fund's cash position increased to 20%, as of July 31, 2010, compared to 10% in early July. Our increased cash position allowed us to take advantage of the selloff in early August, by purchasing securities that we believe represent good value.

During the quarter, several of our capital infusion deals were refinanced with new high-yield bonds, including Spectrum Brands and World Color Press, which resulted in the decrease in our percentage of the portfolio in the

Capital Infusion category. These investments produced solid risk-adjusted returns for the Fund.

The following is a discussion of several specific new investments made during the quarter.

InVentiv – Performing Credit

InVentiv Health, Inc. is a leading provider of staffing, advertising, public relations and other outsourced services to pharmaceutical companies. The company is the top supplier of outsourced salespeople and a top two provider of pharmaceutical advertising services. It is also a substantial player in the outsourced clinical staffing field and an innovator of patient compliance and support programs. Thomas H. Lee Partners (“THL”) acquired InVentiv for \$1.27 billion at a valuation of 7.7 times EBITDA. This LBO was funded with approximately \$900 million of debt, along with THL’s investment of \$387 million cash equity in the company. Given the strong private equity commitment (30% of total capital), the valuation of comparable outsourcing businesses, the yields on debt of similar outsourcing businesses, and the free cash flow coverage of debt at approximately 6%, we found InVentiv to be an attractive new idea which warranted further research. Given the amount of cash equity invested in the deal, the value of the business would need to decline by 30% (this is our “margin of safety”) before our investment would suffer a loss.

We evaluated the company and found the credit to be an attractive investment for our portfolio. We worked with the underwriter of the LBO deal and we initiated an investment in the \$275 million bridge facility the company used to close the leveraged buyout by THL. (See “Discussion of Bridge Financings” on page 37). Regarding the bridge financing, the combined return would be generated from the commitment fee plus the interest rate and other fees associated with the potential funding of the bridge facility. We felt comfortable owning the bridge financing were it to be funded, but we expected that the bridge would not, in fact fund and that we would receive our commitment fee and participate in the new bond issue.

The company never drew down on the bridge facility and instead was able to issue new high-yield bonds to close the transaction. We received our commitment fee for participation in the bridge facility and a good allocation of new bonds from the issuance. The bonds priced at an attractive yield of 10.0% and traded up one point after issuance. We purchased more bonds in the aftermarket to bring our position size to our target level and continue to hold the bonds.

Anadarko Petroleum – Stressed Performing Credit

Anadarko Petroleum Corporation is an independent oil and gas exploration and production company with 2.3 billion barrels of oil equivalent proved reserves. As a result of the BP oil spill, the company’s senior notes traded down as much as 30 points from its recent April peak. We suspected that this was a market overreaction, given that Anadarko had only a 25% non-operating interest in the well, which it acquired after it had been designed and drilling had begun. If BP is found grossly negligent, Anadarko should have limited liability for clean-up costs and no liability for punitive damages. Only 15% of Anadarko’s assets are in the Gulf of Mexico. Based upon our analysis, the company has substantial asset value located outside of the Gulf of Mexico, none of which are impacted by the drilling moratorium.

As part of our research, we obtained historical oil spill data, including damages, clean up costs and fines and constructed upside and downside scenarios for Anadarko’s senior notes under different liability assumptions. For each scenario, we analyzed the company’s liquidity and asset coverage. To be conservative, we excluded any value or EBITDA from the Gulf of Mexico assets. In each stress test, we found liquidity to be sufficient, given \$3.2 billion in cash on the balance sheet, available bank credit line and free cash flow. We believe that, if necessary, the company could raise additional senior secured debt, sell \$2 billion to \$3 billion in non-core assets and cut capital expenditures from \$5.5 billion to \$2 billion.

Subsequently, Anadarko has refused BP's demand that it pay 25% of the clean-up costs and has stated it will enter mediation with BP over the issues of liability and BP's potential negligence. Anadarko has also taken steps to improve its liquidity profile, by replacing the \$1.3 billion credit facility with a new \$5 billion revolving loan. We purchased the Anadarko 6.95% notes due 2019 at an average price around \$91 and six weeks later the notes traded up to \$102.

GMAC/Ally Financial – Stressed Performing Credit

In a previous letter we discussed our investment in GMAC unsecured bonds (GMAC has since changed its name to Ally). We have continued to own the bonds and research Ally. Based on the company's improving performance, we initiated an investment in the 7% Ally Cumulative Perpetual Preferred Stock.

Based on our updated analysis, we believe there is sufficient asset value to more than cover all of Ally's debt plus provide additional value for its preferred stock and equity securities. As a reminder, U.S. Treasury invested over \$14 billion in the form of preferred stock (\$3 billion of which has already been converted into common stock) as part of its TARP investment in Ally. This preferred stock investment ranks *pari passu* with the \$2.7 billion of 7% preferred stock we purchased.

Now, the company and Treasury are discussing a potential equity IPO of Ally Financial over a one-to-two year horizon. We believe our preferred shares are well situated in the capital structure – both from having sufficient asset coverage plus a strong covenant. We analyzed the indenture in-depth and discovered that our preferred stock has a “dividend blocker” which prohibits Ally from paying any dividends to its common stock holders. We believe that this prohibition on paying common dividends could be viewed negatively by potential investors in its IPO. The solution would be to take out our preferred stock at a price of par when it becomes callable on December 31, 2011.

Of course, we do not hold a contractual right to early redemption and it is entirely possible Ally could execute a

successful IPO with our common dividend restriction in place. Our preferred stock could also benefit from a potential conversion of Treasury's preferred stock investment into common stock. It would seem unlikely that investors would be willing to invest a substantial amount into the common equity of Ally if Treasury still had a \$11 billion investment which ranks ahead of the new money invested in the IPO. The preferred stock owned by Treasury is also mandatorily convertible into common stock in 2016, which would be a positive for our preferred (which is not mandatorily convertible into common stock). This conversion into common stock would be a benefit to Ally and its IPO prospects, since it would increase its Tier One common equity ratio (the ratio of available capital to common equity) to a more acceptable range.

Hicks Sports Group – Distressed Credit

Hicks Sports Group, LLC (“HSG”) is the sports holding company through which Thomas O. Hicks held his investments in the Texas Rangers baseball team, the Dallas Stars hockey team, and a 50% equity interest in American Airlines Center, the arena that the Stars share with the Dallas Mavericks. After substantial cash injections, Thomas Hicks chose to sell the teams and unwind his investment vehicle rather than fund continued losses. HSG stopped paying interest on its first and second lien debt in 2009, leading to forbearance, and the company began the process of selling its marquee sports assets. HSG first sought to sell the baseball team to a group headed by former player Nolan Ryan and attorney Chuck Greenberg in a deal that was blessed by Major League Baseball, but it met sharp resistance from HSG creditors, who sought an open auction for a higher recovery. The resistance led the entity that owns the baseball team to file for bankruptcy in order to finalize a sale to Ryan/Greenberg. Much of the financial information in the credit is private and subject to confidentiality agreements, although the publicly filed Plan of Reorganization showed an expected payment to creditors from the sale of the Rangers to be approximately \$230 million. The first lien loans (total claim of \$446 million plus \$39 million in accrued interest) were trading

in the mid 80s and the second lien loans (total claim of \$115 million plus \$22 million in accrued interest) were quoted in the teens as a percentage of face.

As part of our due diligence, we contacted several independent sources with substantial expertise in sports franchises. We initiated an investment in the first lien loans in the high 80s context after closely examining the financials of the Stars and the American Airlines arena, while assuming a worst case recovery from the Rangers of \$230 million. Based upon our opinion of the cash flows at the arena and a reasonable capitalization rate versus the mortgage against the arena, we felt that the arena in conjunction with the Rangers cash would cover the value of our investment, with potential upside from any value ascribed to the Stars. Additionally, we liked the potential upside from cash from a sale of the Rangers, either from a topping bid or a reduction in liabilities or both. We felt comfortable with the valuation of the overall assets in conjunction with the first lien claims.

The Rangers were sold in a contentious auction process on August 4, 2010 to the Ryan/Greenberg group, after several topping bids from a group led by Dallas Mavericks owner Mark Cuban and Houston businessman Jim Crane. The net amount to lenders expanded from \$230 million to approximately \$310 million and there are some reductions in liabilities that are being finalized. The loan prices increased to the 101-103% context after the news, and we feel confident that the cash from the sale of the Rangers in conjunction with a reasonable valuation on the arena will lead to full recovery of par plus accrued interest to first lien lenders. We anticipate receiving a substantial paydown on our loans after the Rangers sale closes in August or September, and the balance will come from what we anticipate should be a reasonably quick sale of the Stars.

Lehman Brothers Inc. – Debt-for-Equity/Bankruptcy Credit

Lehman Brothers, once the fourth largest U.S.-based investment bank, generated a majority of its revenues from merger advisory, underwriting, market-making and investment management activities. Due to the credit crisis

and a lack of liquidity, the company filed for Chapter 11 protection on September 15, 2008, the largest and most complex corporate bankruptcy in history. Over the last two years, the company has made significant progress selling assets, unwinding derivatives, and accumulating over \$19 billion of cash in the U.S. estate.

We initiated an investment in Lehman Brothers Holding, Inc. (the holding corporation) bonds with an average price near 20. We believe Lehman remains undervalued due to a number of solid assets, its complexity, the large supply of tradable claims, and its long investment time horizon. While Lehman's first plan of reorganization estimates a recovery of 17.4 cents, we believe the plan is extremely conservative and excludes significant value from foreign subsidiaries and litigation. In our stress test which included substantial markdowns to Lehman's real estate and private equity holdings, our analysis indicates that Lehman trades at a substantial discount to our base case net asset value.

Lehman is currently negotiating with its creditors on its plan of reorganization and is targeting a bankruptcy exit in late 2010 to early 2011 as a liquidating trust. Periodic cash distributions will begin shortly after and we estimate a two to three year timeframe to receive all the distributions from the trust. We believe Lehman bonds have manageable downside and attractive upside potential. We have initiated a starter position and would look to add to our holdings at the right price.

PORTFOLIO COMPOSITION

INVESTMENT CATEGORY

	<u>7/31/2010</u>	<u>4/30/2010</u>
Performing Bonds	34%	38%
Performing Loans	3%	4%
Stressed/Distressed Performing	31%	32%
Capital Infusion/Debt-for-Equity Restructurings	12%	14%
Cash	<u>20%</u>	<u>12%</u>
Total	<u>100%</u>	<u>100%</u>

SECURITY TYPE

	<u>7/31/2010</u>	<u>4/30/2010</u>
First Lien Secured Bonds	5%	7%
Second Lien Secured Bonds	17%	20%
Unsecured High Yield Bond	41%	35%
First Lien Secured Loans	14%	23%
Post-Reorg Equities (1)	<u>3%</u>	<u>3%</u>
Total Invested	<u>80%</u>	<u>88%</u>
Cash	<u>20%</u>	<u>12%</u>
Total Portfolio	<u>100%</u>	<u>100%</u>

(1) These are equities that we received in exchange for our debt positions in certain companies.

TOP 10 ISSUERS

	<u>7/31/2010</u>	<u>4/30/2010</u>
The Hertz Corp.	3.4%	3.0%
CIT Group, Inc.	2.9%	4.1%
Lyondell Chemical Co.	2.9%	3.3%
Nuveen Investment	2.7%	2.1%
Aveos	2.6%	2.9%
CF Industries, Inc.	2.5%	0.0%
Clear Channel Communications, Inc.	2.4%	2.1%
Fortescue/FMG	2.4%	2.7%
Harrah's Operating Co.	2.3%	1.7%
Swift Transportation Co.	2.2%	3.4%

TOP FIVE INDUSTRIES

	<u>7/31/2010</u>
Energy	11.3%
Financials	10.9%
Telecommunications	8.8%
Chemicals	7.3%
Health Care	5.8%

MARKET OUTLOOK AND PORTFOLIO POSITIONING

As you may recall, in our last letter, we discussed a number of the headwinds facing the financial markets and future economic growth. One of the primary drivers was “The Debt Supercycle” and the belt tightening that most every country, state and household needs to take to reduce their budget deficits. We concluded that these austerity measures, which include tax increases and spending cuts, would have a more negative impact on GDP growth and employment than many were forecasting. During the quarter, we began to see the negative impact of these measures on economic growth and economic growth forecasts.

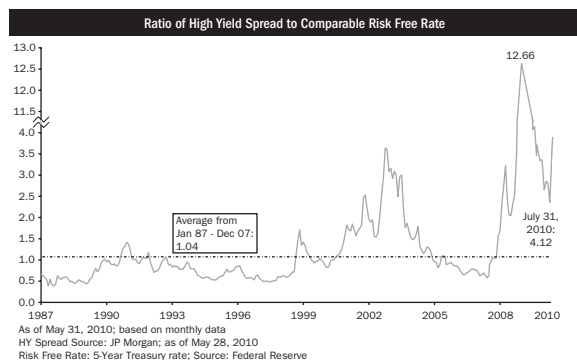
In light of these circumstances, we have essentially eliminated positions in companies that would require substantial growth in earnings in order keep up with a highly-leveraged capital structure. Also, except for certain distressed positions, we have limited exposure to companies that require substantial refinancing or access to capital markets in order to avoid a default. We also increased the “Margin of Safety” we require for each investment.

Despite these headwinds, we believe there are two positive factors for high yield and credit: low interest rates and a significant decline in default rates. As a result of these headwinds and austerity measures, interest rates will likely remain low for a longer period of time than previously anticipated. Interest rate increases in the U.S. and Europe are unlikely within the next 12 months and possibly even longer. Consequently, short-term interest rates, including on investors’ money market accounts, are likely to remain extremely low.

In evaluating the attractiveness of high yield, it is not only the absolute market spread to Treasuries (i.e., the risk free rate) that is relevant, but also the ratio of spreads to Treasury rates. We refer to this as the “bang for the buck” an investor gets for moving from a risk free investment to a riskier investment. While not at its all time high, the ratio of high-yield spreads to comparable risk free rates is well above the long-term average, and higher than any

other time period prior to the recent financial crisis. Please refer to the following chart.

EXCEPT FOR DURING RECENT FINANCIAL CRISIS, THE BENEFIT OF MOVING FROM RISK-FREE TREASURIES TO HIGH-YIELD BONDS IS NEAR ITS 23-YEAR HIGHEST POINT



We believe the probability of a double-dip recession in the U.S. is relatively low. Therefore, default rates for high-yield issuers, which have decreased substantially to an annualized rate of approximately 2% in 2010, are unlikely to increase dramatically anytime soon. The current spread in the high-yield market is approximately 650 basis points. Default rates would need to equal 10% over the next 12 months, given a 60% loss upon a default, for an investor to lose all the extra spread to cover losses from defaults. This appears to be very unlikely; therefore, it seems investors are adequately compensated for expected default losses.

A combination of low interest rates and modest default rates sets the stage for a favorable environment for high-yield bonds. Recent poor returns and volatility in the equity markets, along with a more uncertain growth environment (which may make things more difficult for equities, particularly in lower quality and poorly financed companies), makes high-yield bonds and the credit markets even more attractive.

A DISCUSSION OF BRIDGE FINANCINGS

We have been active in opportunistic financings related to fundings for new leveraged buyout (“LBO”) deals. Some of the new bridge financing deals for LBOs we participated in included Dyncorp, Multiplan, CF Industries, NBTY (a.k.a. Nature’s Bounty), Evertech and InVentiv Healthcare. There are several advantages to investing in bridge financing deals, an area of financings that I and several members of our team have actively participated in over the years. Hopefully the following general description of an LBO bridge financing will help you understand how we use these investments in the portfolio and illustrate the advantage of owning a fund that is able to invest in both bonds and loans.

Assume Company ABC is being bought in an LBO for \$1 billion by a private equity (“PE”) firm. In today’s market, the PE firm must fund approximately 30-40% of the purchase price in cash equity investment. This is a significant increase from approximately 20% before the financial crisis occurred. If we assume the PE firm invests 35%, that is \$350 million, which leaves \$650 million in debt to be financed. With the re-opening of the capital markets, a number of investment banks are now willing to provide committed financing to the PE firm to fund the debt. This would normally be split between secured bank loan financing (say \$300 million) and new unsecured high-yield financing for the remaining \$350 million. This allows the PE firm to make its offer to buy Company ABC with no financing contingencies and full certainty that the LBO deal will close. The PE firm pays fees and agrees to the financing terms with the investment bank. However, the investment bank is now on the hook to fund the \$650 million in bridge financing, even if it is unable to sell it into the bank loan or high-yield markets.

The investment bank that agrees to this financing will normally contact several of its good customers, including Third Avenue, to offer them an opportunity to buy into a portion of this bridge financing at similar terms to those the investment bank agreed to. This opportunity is

offered to Third Avenue because we are willing to do the necessary research on a timely basis and have a strong reputation for being able to close on time. We are very selective and only participate in a portion of the deals that are presented to us.

The terms of such deals are usually attractive and normally include a Commitment Fee of between 75-100 basis points, which is payable to the Fund for each deal we commit to. Most bridge financings are never funded, since the investment bank raises the new bank loan and high-yield financing in the markets. The terms of bridge financings are often onerous to the borrower, so every effort is made to avoid funding them. If the bridge financing is funded, it normally includes a fee of 100-150 basis points on committed capital. The initial interest rate is higher than we believe the market rate would be at the time we commit to the bridge financing and then increases by 50 basis points every three months, up to a maximum interest rate which is normally in the 12.5-15% range; and there are additional fees, normally 1.5 additional points, if the bridge financing is still outstanding after 12 months.

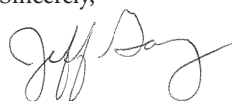
Since most of these companies are public, there is a substantial amount of existing information available to help complete our research. Additionally, the company normally prepares a presentation and supplemental information to augment available research.

Due to our expertise in this area, we are able to perform nearly all of our standard, in-depth due diligence and make an initial investment decision before the company presents itself to the broader market.

These bridge financings are mutually beneficial to the Fund and the investment bank that we purchase the bridge financing from. When the Fund purchases a portion of the bridge financing, the investment bank benefits, as it is able to reduce its capital commitment to the deal. Our participation in the financing also signals to the investment bank that the Fund is likely to buy the new bank loan or high-yield financing (subject to final pricing) when it is brought to market. On the other hand, the Fund benefits from the attractive fees and rates. The Fund may also be able to obtain a more desirable allocation on the new high-yield issue from the investment bank that is closer to the amount allocated in the bridge financing. This allows us the opportunity to properly size our investment.

Fellow shareholders, we appreciate your continued support and interest in the Focused Credit Fund. As always, we continue to work diligently to generate strong risk adjusted returns for all our clients.

Sincerely,



Jeff Gary
Portfolio Manager,
Third Avenue Focused Credit Fund



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

THIRD QUARTER REPORT

July 31, 2010

THIRD AVENUE FUNDS

Privacy Policy

Third Avenue Funds (the “Funds”) respects 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) the Funds’ website 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 of Investments
at July 31, 2010
(Unaudited)**

Principal Amount (\$)	Value (Note 1)	Shares	Value (Note 1)
Corporate Debt Instruments - 2.89%			
	Consumer Products - 0.19%		
16,481,850	Home Products International, Inc., 2nd Lien, Convertible, PIK, 6.000%, due 3/20/17 (b) (e)	\$ 9,186,983	
	Financial Insurance - 2.70%		
270,000,000	MBIA Insurance Corp., 14.000%, due 1/15/33 (d) (g)	130,950,000	
	Total Corporate Debt Instruments (Cost \$269,003,805)	<u>140,136,983</u>	
Shares			
Preferred Stocks - 0.01%			
	Insurance & Reinsurance - 0.01%		
4,775	Ecclesiastical Insurance, 8.625% (United Kingdom)	8,354	
1,022,245	RS Holdings Corp., Convertible, Class A (a) (b) (c)	236,158	
	Total Preferred Stocks (Cost \$1,001,188)	<u>244,512</u>	
Common Stocks and Warrants - 91.90%			
	Annuities & Mutual Fund Management & Sales - 3.10%		
6,000,000	Bank of New York Mellon Corp. (The)	150,420,000	
	Auto Supply - 0.01%		
191,736	ISE, Ltd. (Cayman Islands) (a) (b) (e)	68,186	
460,467	ISE, Ltd., Restricted Voting Shares (Cayman Islands) (a) (b) (e)	163,753	
		<u>231,939</u>	
	Automotive - 9.68%		
		17,400,700	Toyota Industries Corp. (Japan) (c) \$ 469,282,146
	Consumer Products - 0.00%#		
		526,368	Home Products International, Inc. (a) (b) (c) (e) <u>26,318</u>
	Depository Institutions - 2.28%		
		218,500	Carver Bancorp, Inc. (c) 1,420,250
		10,728,450	Chong Hing Bank, Ltd. (Hong Kong) 24,198,577
		10,000,000	KeyCorp 84,600,000
			<u>110,218,827</u>
	Diversified Operations - 10.00%		
		10,000,000	Brookfield Asset Management, Inc., Class A (Canada) 250,900,000
		42,684,822	Wharf (Holdings), Ltd. (The) (Hong Kong) <u>233,550,684</u>
			<u>484,450,684</u>
	Financial Insurance - 0.01%		
		37	Manifold Capital Holdings, Inc. (a) (b) (c) (e) <u>555,000</u>
	Holding Companies - 23.68%		
		83,370	Capital Southwest Corp. 7,404,923
		53,819,000	Cheung Kong Holdings, Ltd. (Hong Kong) 650,262,395
		496,800	Guoco Group, Ltd. (Hong Kong) ¹ 4,892,848
		10,665,000	Investor AB, Class A (Sweden) 192,333,839
		3,317,350	RHJ International (Belgium) (a) 28,186,041
		84,813,500	Wheelock & Co., Ltd. (Hong Kong) 264,240,322
			<u>1,147,320,368</u>
	Industrial & Agricultural Equipment - 0.07%		
		360,100	Mestek, Inc. (a) <u>3,510,975</u>

See accompanying notes to the Portfolios of Investments.

**Third Avenue Trust
Third Avenue Value Fund
Portfolio of Investments (continued)
at July 31, 2010
(Unaudited)**

Shares		Value (Note 1)	Shares		Value (Note 1)
Common Stocks and Warrants (continued)			Oil & Gas Production & Services (continued)		
Insurance & Reinsurance - 0.00%#					
127,500	Olympus Re Holdings, Ltd. (Bermuda) (a) (b)	\$ 179,775	11,090,000	Nabors Industries, Ltd. (Bermuda) (a)	\$ 204,166,900
32,089	RS Holdings Corp., Class A (a) (b)	7,413			318,755,057
		<u>187,188</u>			
Manufactured Housing - 0.72%			Steel & Specialty Steel - 7.51%		
500	Fleetwood Homes, Inc. (a) (b) (c)	35,000,000	3,500,000	POSCO, ADR (South Korea)	364,035,000
Mutual Holding Companies - 0.21%			Telecommunications - 1.62%		
637,122	Brooklyn Federal Bancorp, Inc.	2,656,799	1,871,861	Sycamore Networks, Inc. (c)	43,576,924
47,859	Colonial Financial Services, Inc. (a)	473,804	5,008,450	Tellabs, Inc.	34,958,981
490,036	FedFirst Financial Corp. (a) (c)	2,254,166			<u>78,535,905</u>
205,511	Gouverneur Bancorp, Inc. (c)	1,489,955	U.S. Real Estate Operating Companies - 4.62%		
274,157	Home Federal Bancorp, Inc. (c)	2,666,177	18,975,821	FNC Realty Corp. (a) (b) (c)	7,941,381
242,800	SFSB, Inc. (a) (c)	789,100	10,764,203	Forest City Enterprises, Inc., Class A (a) (c)	136,705,378
		<u>10,330,001</u>	22,500	Forest City Enterprises, Inc., Class B (a)	289,125
Non-U.S. Real Estate Operating Companies - 19.07%			3,420,106	Tejon Ranch Co. (a) (c)	78,799,242
24,220,000	Hang Lung Group, Ltd. (Hong Kong)	142,186,289			<u>223,735,126</u>
30,534,000	Hang Lung Properties, Ltd. (Hong Kong)	127,364,223	Utilities, Utility Service Companies & Waste Management - 2.74%		
104,598,738	Henderson Land Development Co., Ltd. (Hong Kong)	651,090,954	8,816,889	Covanta Holding Corp. (c)	132,870,517
20,919,747	Henderson Land Development Co., Ltd. Warrants, expires 6/1/11 (Hong Kong) (a)	3,231,889	Total Common Stocks and Warrants (Cost \$3,798,576,344)		
		<u>923,873,355</u>			<u>4,453,338,406</u>
Oil & Gas Production & Services - 6.58%					
776,800	Cenovus Energy, Inc. (Canada)	21,905,760			
1,001,404	Cimarex Energy Co.	68,966,693			
776,800	EnCana Corp. (Canada)	23,715,704			

See accompanying notes to the Portfolios of Investments.

**Third Avenue Trust
Third Avenue Value Fund
Portfolio of Investments (continued)
at July 31, 2010
(Unaudited)**

Investment Amount (\$) or Partnership Units	Value (Note 1)	Principal Amount (\$)	Value (Note 1)
Limited Partnerships - 0.15%		Short Term Investments - 3.61%	
			U.S. Government Obligations - 3.61%
400,000	Infrastructure - 0.14% Brookfield Infrastructure Partners L.P. (Canada) ²	175,000,000	U.S. Treasury Bill, 0.23% [‡] , due 10/28/10 (f)
	\$ 6,956,000		\$ 174,938,750
1,805,000	Insurance & Reinsurance - 0.01% Insurance Partners II Equity Fund, L.P. (a) (b)		
	311,040		
	<u>7,267,040</u>		
			Total Short Term Investments (Cost \$174,900,277)
			<u>174,938,750</u>
			Total Investment
			Portfolio - 98.56% (Cost \$4,251,489,428)
			4,775,925,691
			Other Assets less
			Liabilities - 1.44%
			69,781,959
			<u>\$ 4,845,707,650</u>
			NET ASSETS - 100.00%
			Investor Class:
			Net assets applicable to 300,802 shares outstanding
			\$ 13,466,012
			Net asset value, offering and redemption price per share
			<u>\$44.77</u>
			Institutional Class:
			Net assets applicable to 107,920,091 shares outstanding
			\$ 4,832,241,638
			Net asset value, offering and redemption price per share
			<u>\$44.78</u>

See accompanying notes to the Portfolios of Investments.

**Third Avenue Trust
Third Avenue Value Fund
Portfolio of Investments (continued)
at July 31, 2010
(Unaudited)**

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) Security is subject to restrictions on resale.

(f) A portion of this security is segregated for future fund commitments.

(g) Variable rate security.

Amount represents less than 0.01% of total net assets.

‡ Annualized yield at date of purchase.

¹ Incorporated in Bermuda.

² Bermuda exempted limited partnership.

Country Concentration

	% of <u>Net Assets</u>
Hong Kong	43.36%
United States *	22.97
Japan	9.68
South Korea	7.51
Canada	6.26
Bermuda	4.22
Sweden	3.97
Belgium	0.58
Cayman Islands	0.01
United Kingdom	0.00#
Total	<u>98.56%</u>

* Includes cash equivalents.

Amount represents less than 0.01% of total net assets.

See accompanying notes to the Portfolios of Investments.

Third Avenue Trust
Third Avenue Small-Cap Value Fund
Portfolio of Investments
at July 31, 2010
(Unaudited)

Principal Amount (\$)	Value (Note 1)	Shares or Units	Value (Note 1)
Corporate Debt Instruments - 2.78%			
			Consumer Products - 3.26%
			JAKKS Pacific, Inc. (a) \$ 18,490,546
9,740,000	Financial Insurance - 0.44%	1,171,771	16,113,989
	MBIA Insurance Corp.,	1,348,451	<u>34,604,535</u>
	14.000%, due 1/15/33 (e) (f) \$ 4,723,900		
			Electronics Components - 5.96%
15,000,000	Oil & Gas - 2.34%	741,242	17,478,486
	Energy XXI Gulf Coast, Inc.,	907,468	9,664,534
	10.000%, due 6/15/13 15,000,000	677,350	11,196,595
10,475,000	W & T Offshore, Inc., 8.250%,	529,647	5,063,425
	due 6/15/14 (e) 9,898,875	725,973	19,920,699
	<u>24,898,875</u>		<u>63,323,739</u>
	Total Corporate Debt Instruments		
	(Cost \$27,641,494) <u>29,622,775</u>		
		819,961	27,411,296
		1,663,262	6,320,396
		1,895,703	12,549,554
		726,313	29,764,307
			<u>76,045,553</u>
			Energy/Services - 7.15%
			Bristow Group, Inc. (a) 27,411,296
			Bronco Drilling Co., Inc. (a) (c) 6,320,396
			Pioneer Drilling Co. (a) 12,549,554
			Tidewater, Inc. 29,764,307
			<u>76,045,553</u>
			Forest Products & Paper - 3.17%
			Catalyst Paper Corp. 2,975,987
			(Canada) (a) (b) (c) (d) 19,629,951
			P.H. Glatfelter Co. 11,086,468
			TimberWest Forest Corp. Units 33,692,406
			<u>33,692,406</u>
			Healthcare Services - 4.75%
			Cross Country Healthcare, Inc. (a) (c) 28,609,779
			Pharmaceutical Product Development, Inc. 21,901,273
			<u>50,511,052</u>
			Holding Companies - 8.85%
			Ackermans & van Haaren NV (Belgium) 29,862,768
			Brookfield Asset Management, Inc., Class A (Canada) 26,925,283
			<u>26,925,283</u>
			Common Stocks - 85.24%
			Aerospace & Defense - 0.22%
150,380	Herley Industries, Inc. (a) <u>2,327,882</u>		
			Agriculture - 4.05%
5,491,687	Viterra, Inc. (Canada) (a) <u>43,001,878</u>	21,530,352	
			Banks - 0.09%
100,000	Wilmington Trust Corp. <u>1,014,000</u>	1,717,406	
			Chemicals & Allied Products - 4.06%
677,884	Lanxess AG (Germany) 32,548,361	2,733,200	
427,037	Westlake Chemical Corp. <u>10,564,895</u>	3,221,822	
	<u>43,113,256</u>	902,773	
			Computer Peripherals - 1.92%
707,309	Imation Corp. (a) 6,592,120	436,242	
374,753	Lexmark International, Inc., Class A (a) <u>13,772,173</u>	1,073,148	
	<u>20,364,293</u>		

See accompanying notes to the Portfolios of Investments.

Third Avenue Trust
Third Avenue Small-Cap Value Fund
Portfolio of Investments (continued)
at July 31, 2010
(Unaudited)

Shares or Units		Value (Note 1)	Shares or Units		Value (Note 1)
Common Stocks (continued)			Non-U.S. Real Estate Operating Companies - 6.69%		
	Holding Companies (continued)				
1,283,102	JZ Capital Partners, Ltd. (Guernsey) \$	5,939,448	4,597,100	Parco Co., Ltd. (Japan) (c)	\$ 33,469,251
1,039,680	JZ Capital Partners, Ltd. Limited Voting Shares (Guernsey) (d)	4,812,654	7,817,000	Sapporo Holdings, Ltd. (Japan)	37,639,586
495,300	Leucadia National Corp. (a)	10,941,177			<u>71,108,837</u>
475,780,230	PYI Corp., Ltd. (Hong Kong) ¹ (a) (c)	15,619,435	258,516	Oil & Gas - 1.67%	
		<u>94,100,765</u>		Cimarex Energy Co.	<u>17,803,997</u>
	Industrial Equipment - 2.66%		305,053	Securities Trading Services - 3.13%	
201,393	Alamo Group, Inc.	4,718,638		Broadridge Financial Solutions, Inc.	6,192,576
1,589,181	Wacker Neuson SE (Germany)	23,608,772	1,726,735	Investment Technology Group, Inc. (a)	<u>27,127,007</u>
		<u>28,327,410</u>			<u>33,319,583</u>
59,995	Industrial Services - 0.25%			Semiconductor Equipment Manufacturers & Related - 1.68%	
	UniFirst Corp.	2,637,380		Electro Scientific Industries, Inc. (a) (c)	<u>17,822,218</u>
190,022	Insurance & Reinsurance - 4.19%		1,552,458	Software - 3.12%	
	Arch Capital Group, Ltd. (Bermuda) (a)	14,871,122		Synopsys, Inc. (a)	<u>33,189,374</u>
25,774	E-L Financial Corp., Ltd. (Canada)	11,406,947		Telecommunications - 1.66%	
698,733	HCC Insurance Holdings, Inc.	18,250,906	1,519,660	Sycamore Networks, Inc.	8,981,750
		<u>44,528,975</u>	385,814	Tellabs, Inc.	<u>8,671,771</u>
194,375	Life Insurance - 2.82%		1,242,374		<u>17,653,521</u>
	National Western Life Insurance Co., Class A (c)	29,964,850		U.S. Real Estate Operating Companies - 7.74%	
180,124	Media - 0.93%		1,270,936	Alexander & Baldwin, Inc.	42,639,903
	Liberty Media Corp. - Starz Series A (a)	9,887,006	267,314	Alico, Inc. (a)	6,511,769
1,089,112	Metals Manufacturing - 5.22%		322,646	Tejon Ranch Co. (a)	7,433,764
787,198	Encore Wire Corp.	23,176,303	676,936	Vail Resorts, Inc. (a)	25,642,336
	Kaiser Aluminum Corp.	32,275,118			<u>82,227,772</u>
		<u>55,451,421</u>		Total Common Stocks	
				(Cost \$955,240,420)	<u>906,021,703</u>

See accompanying notes to the Portfolios of Investments.

**Third Avenue Trust
Third Avenue Small-Cap Value Fund
Portfolio of Investments (continued)
at July 31, 2010
(Unaudited)**

Investment Amount (\$)	Value (Note 1)	Principal Amount (\$)	Value (Note 1)
Limited Partnerships - 0.55%		Short Term Investments - 6.87%	
1,000,000 Holding Companies - 0.55% AP Alternative Assets, L.P. (Guernsey) (a) (b)	\$ 5,842,500	73,000,000 U.S. Government Obligations - 6.87% U.S. Treasury Bills, 0.15%-0.16%†, due 8/5/10-8/26/10 (g)	\$ 72,995,080
Total Limited Partnerships (Cost \$20,000,000)		Total Short Term Investments (Cost \$72,995,080)	
<u>5,842,500</u>		<u>72,995,080</u>	
Notional Amount (\$)		Total Investment Portfolio - 95.73%	
Purchased Options - 0.29%		(Cost \$1,081,993,244) 1,017,534,201	
Foreign Currency Put Options - 0.29%		Other Assets	
25,000,000 Euro Currency, strike 1.17 Euro, expires 11/18/10	109,418	less Liabilities - 4.27% 45,405,695	
75,000,000 Euro Currency, strike 1.20 Euro, expires 3/7/12	2,670,225	NET ASSETS - 100.00%	
50,000,000 Japan Currency, strike 100 Yen, expires 9/14/10	0	<u>\$1,062,939,896</u>	
100,000,000 Japan Currency, strike 95 Yen, expires 11/30/10	272,500	Investor Class:	
Total Purchased Options (Cost \$6,116,250)		Net assets applicable to 179,464 shares outstanding \$ 3,235,755	
<u>3,052,143</u>		Net asset value, offering and redemption price per share <u>\$18.03</u>	
		Institutional Class:	
		Net assets applicable to 58,725,055 shares outstanding <u>\$1,059,704,141</u>	
		Net asset value, offering and redemption price per share <u>\$18.05</u>	

See accompanying notes to the Portfolios of Investments.

**Third Avenue Trust
Third Avenue Small-Cap Value Fund
Portfolio of Investments (continued)
at July 31, 2010
(Unaudited)**

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).
- (d) Security is subject to restrictions on resale.
- (e) 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.
- (f) Variable rate security.
- (g) A portion of this security is segregated for future fund commitments.
- † Annualized yield at date of purchase.
- ¹ Incorporated in Bermuda.

Country Concentration

	% of <u>Net Assets</u>
United States *	67.54%
Canada	8.98
Japan	6.69
Germany	5.28
Belgium	2.81
Guernsey	1.56
Hong Kong	1.47
Bermuda	1.40
Total	<u>95.73%</u>

* Includes cash equivalents.

See accompanying notes to the Portfolios of Investments.

Third Avenue Trust
Third Avenue Real Estate Value Fund
Portfolio of Investments (continued)
at July 31, 2010
(Unaudited)

Shares or Units	Value (Note 1)	Principal Amount (\$)	Value (Note 1)
Common Stocks and Warrants (continued)		Short Term Investments - 5.05%	
	U.S. Real Estate Operating Companies - 16.57%		U.S. Government Obligations - 5.05%
500,500	Consolidated-Tomoka Land Co. (c) \$	78,450,000	U.S. Treasury Bills, 0.08% - 0.14% [†] , due 8/26/10 - 10/21/10 (e) \$
12,982,327	FNC Realty Corp. (a) (b) (c)		78,440,748
8,290,773	Forest City Enterprises, Inc., Class A (a) (c)		Total Short Term Investments
	105,292,817		(Cost \$78,440,702) <u>78,440,748</u>
28,893,141	Newhall Holding Co. LLC, Class A Units (a) (c)		Total Investment
1,228,228	St. Joe Co. (The) (a)		Portfolio - 88.30%
941,627	Tejon Ranch Co. (a) (c)		(Cost \$1,309,162,485) 1,371,434,245
7,357,929	Thomas Properties Group, Inc. (a) (c)		Other Assets
	<u>257,380,507</u>		less Liabilities - 11.70%
	Total Common Stocks and Warrants		181,728,504
	(Cost \$1,159,872,456) <u>1,203,866,098</u>		NET ASSETS - 100.00%
			<u>\$ 1,553,162,749</u>
Investment Amounts (\$)			Investor Class:
			Net assets applicable to 1,010,165 shares outstanding \$ <u>21,201,802</u>
			Net asset value, offering and redemption price per share <u>\$20.99</u>
Limited Partnerships - 2.29%			Institutional Class:
	Investment Fund - 2.29%		Net assets applicable to 72,938,923 shares outstanding \$ <u>1,531,960,947</u>
34,000,000	Alliance Bernstein Legacy (C1) L.P. ² (a) (b) (c)	<u>35,504,146</u>	Net asset value, offering and redemption price per share <u>\$21.00</u>
	Total Limited Partnerships	<u>35,504,146</u>	
	(Cost \$33,327,829)		
Notional Amount (\$)			
Purchased Options - 0.03%			
	Foreign Currency Put Options - 0.03%		
80,000,000	Japan Currency, strike 95 Yen, expires 1/28/11	<u>470,000</u>	
	Total Purchased Options	<u>470,000</u>	
	(Cost \$1,958,000)		

See accompanying notes to the Portfolios of Investments.

**Third Avenue Trust
Third Avenue Real Estate Value Fund
Portfolio of Investments (continued)
at July 31, 2010
(Unaudited)**

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).
 (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) A portion of this security is segregated for written options or future fund commitments.
 † Annualized yield at date of purchase.
¹ Incorporated in Bermuda.
² Cayman Islands exempted limited partnership.

Schedule of Written Options

Contracts	Security	Expiration Date	Strike Price	Value
5,000	Lennar Corp., Class A, Put	8/21/10	\$16	\$ (750,000)
5,000	Lennar Corp., Class A, Put	8/21/10	17	(1,157,500)
14,950	ProLogis, Put	8/21/10	10	(373,750)
9,967	ProLogis, Put	10/16/10	10	(598,020)
2,980	Public Storage, Put	9/18/10	75	(81,950)
4,300	Vornado Realty Trust, Call	9/18/10	90	(455,800)
	(Premiums received \$5,010,548)			<u><u>\$(3,417,020)</u></u>

Country Concentration

	% of Net Assets
United States *	34.41%
Hong Kong	19.23
United Kingdom	14.04
Japan	7.18
Canada	5.93
Singapore	3.77
France	2.86
Luxembourg	0.88
Total	<u>88.30%</u>

* Includes cash equivalents.

See accompanying notes to the Portfolios of Investments.

Third Avenue Trust
Third Avenue International Value Fund
Portfolio of Investments
at July 31, 2010
(Unaudited)

Shares		Value (Note 1)	Shares		Value (Note 1)
Common Stocks, Rights and Warrants - 86.06%			Holding Companies - 9.90%		
	Advertising - 2.53%		761,561	Compagnie Nationale a Portefeuille (Belgium)	\$ 36,442,029
1,437,900	Asatsu-DK, Inc. (Japan)	\$ 34,551,541	3,815,400	Guoco Group, Ltd. (Hong Kong) ¹	37,576,839
	Agriculture - 6.15%		1,270,888	Leucadia National Corp. (a)	28,073,916
155,356	United International Enterprises, Ltd. (Bahamas)	13,503,193	476,835	LG Corp. (South Korea)	32,969,256
8,989,514	Viterra, Inc. (Canada) (a)	70,391,117			<u>135,062,040</u>
		<u>83,894,310</u>		Insurance - 10.18%	
	Building & Construction Products/Services - 0.56%		349,693	Allianz SE (Germany)	40,603,159
10,482,120	Tenon, Ltd. (New Zealand) (a) (c)	7,682,446	265,070	Munich Re (Germany)	36,718,846
	Capital Goods - 1.29%		1,533,625	Sampo Oyj, Class A (Finland)	37,472,756
259,961	Nexans S.A. (France)	17,639,691	881,900	Tokio Marine Holdings, Inc. (Japan)	24,151,576
	Corporate Services - 0.64%				<u>138,946,337</u>
22,522,784	Boardroom, Ltd. (Singapore) (c)	8,778,552	1,023,153	Investment Companies - 2.02%	
	Diversified Operations - 7.16%		17,393,600	Resolution, Ltd., (Guernsey)	3,825,846
1,714,692	Antarchile S.A. (Chile)	34,379,369		Resolution, Ltd., Rights, expires 8/5/10 (Guernsey) (a)	23,744,971
5,371,200	Hutchison Whampoa, Ltd. (Hong Kong)	35,473,777			<u>27,570,817</u>
535,678	Lundbergforetagen AB, Class B (Sweden)	27,853,639	526,572	Machinery - 2.42%	
		<u>97,706,785</u>	642,497	Andritz AG (Austria)	33,023,545
	Electronics Components - 9.14%			Media - 0.39%	
37,050,140	WBL Corp., Ltd. (Singapore) (c)	124,790,147	5,745,000	Alma Media Corp. (Finland)	5,291,556
	Forest Products & Paper - 3.90%		512,500	Metals & Mining - 3.89%	
60,271,095	Catalyst Paper Corp. (Canada) (a) (b) (c) (d)	8,330,842	2,360,000	Dundee Precious Metals, Inc. (Canada) (a) (e)	23,470,648
12,000,000	Catalyst Paper Corp. (Canada) (a) (b) (c) (d) (e)	1,658,674	448,956	Dundee Precious Metals, Inc. Warrants, expires 6/29/12 (Canada) (a) (d)	44,866
51,395,523	Rubicon, Ltd. (New Zealand) (a) (c)	33,565,784		Dundee Precious Metals, Inc. Warrants, expires 11/20/15 (Canada) (a) (d)	4,476,436
598,656	Weyerhaeuser Co.	9,710,200		Newmont Mining Corp.	25,096,640
		<u>53,265,500</u>			<u>53,088,590</u>

See accompanying notes to the Portfolios of Investments.

Third Avenue Trust
Third Avenue International Value Fund
Portfolio of Investments (continued)
at July 31, 2010
(Unaudited)

Shares		Value (Note 1)		Value (Note 1)
Common Stocks, Rights and Warrants (continued)			Total Common Stocks, Rights and Warrants	
485,486	Non-U.S. Closed End Fund - 0.19% ProLogis European Properties Fund (Luxembourg) (a)	\$ 2,644,528		(Cost \$1,285,491,930) <u>\$1,174,779,044</u>
	Non-U.S. Real Estate Operating Companies - 4.28%		Notional Amount (\$)	
1,077,607	Atrium European Real Estate Ltd. (Jersey) (a)	5,546,930	Purchased Options - 0.13%	
2,735,600	Daibiru Corp. (Japan)	20,518,187		Foreign Currency Put Options - 0.13%
2,187,000	Mitsui Fudosan Co., Ltd. (Japan)	32,401,875	200,000,000	Euro Currency, strike 1.117 Euro, expires 11/17/10
		<u>58,466,992</u>	75,000,000	Japan Currency, strike 90 Yen, expires 12/1/10
	Oil & Gas Production & Services - 3.97%		75,000,000	Japan Currency, strike 95 Yen, expires 2/22/11
846,861	Cenovus Energy, Inc. (Canada)	23,881,480		Total Purchased Options
993,802	EnCana Corp. (Canada)	30,340,775		(Cost \$8,853,125) <u>1,753,125</u>
		<u>54,222,255</u>		
	Other Financial - 2.77%		Principal Amount (\$)	
67,766,000	Yuanta Financial Holding Co., Ltd. (Taiwan)	37,855,147	Short Term Investments - 7.62%	
	Pharmaceuticals - 3.52%			U.S. Government Obligations - 7.62%
1,037,423	GlaxoSmithKline PLC (United Kingdom)	18,085,596	104,000,000	U.S. Treasury Bills, 0.08%-0.23%†, due 9/16/10-10/28/10
514,600	Sanofi-Aventis SA (France)	29,888,740		<u>103,974,692</u>
		<u>47,974,336</u>		Total Short Term Investments
	Technology - Hardware - 2.75%			(Cost \$103,961,501) <u>103,974,692</u>
84,824,750	United Microelectronics Corp. (Taiwan)	37,589,884		Total Investment Portfolio - 93.81%
	Telecommunications - 5.83%			(Cost \$1,398,306,556) <u>1,280,506,861</u>
49,496,693	Netia S.A. (Poland) (a) (c)	79,542,506		Other Assets
	Transportation - 2.58%			less Liabilities - 6.19%
5,233,000	Seino Holdings Co., Ltd. (Japan)	35,191,539		<u>84,533,979</u>
		<u>35,191,539</u>		NET ASSETS - 100.00%
				<u>\$1,365,040,840</u>

See accompanying notes to the Portfolios of Investments.

Third Avenue Trust
Third Avenue International Value Fund
Portfolio of Investments (continued)
at July 31, 2010
(Unaudited)

Investor Class:

Net assets applicable to 383,051 shares outstanding	\$ 5,631,634
Net asset value, offering and redemption price per share	<u>\$14.70</u>

Institutional Class:

Net assets applicable to 92,387,484 shares outstanding	\$1,359,409,206
Net asset value, offering and redemption price per share	<u>\$14.71</u>

Country Concentration

	% of Net Assets
United States *	12.35%
Canada	11.92
Japan	10.76
Singapore	9.79
Poland	5.83
Germany	5.66
Taiwan	5.53
Hong Kong	5.35
France	3.48
Finland	3.13
New Zealand	3.02
Belgium	2.67
Chile	2.52
Austria	2.42
South Korea	2.41
Sweden	2.04
Guernsey	2.02
United Kingdom	1.32
Bahamas	0.99
Jersey	0.41
Luxembourg	0.19
Total	<u>93.81%</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).
- (d) Security is subject to restrictions on resale.
- (e) 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.

† Annualized yield at date of purchase.

¹ Incorporated in Bermuda.

* Includes cash equivalents.

See accompanying notes to the Portfolios of Investments.

Third Avenue Trust
Third Avenue Focused Credit Fund
Portfolio of Investments
at July 31, 2010
(Unaudited)

Principal Amount (\$)	Value (Note 1)	Principal Amount (\$)	Value (Note 1)
Corporate Debt Instruments - 77.11%			
Aerospace - 3.35%			
		27,500,000	
			\$ 29,356,250
3,180,308			
			Diversified Manufacturing - 2.86%
			Case New Holland, Inc.,
5,786,985			7.875%, due 12/1/17 (a) 9,472,500
			Trimas Corp., 9.750%,
9,000,000			due 12/15/17 (a) 15,393,750
			<u>24,866,250</u>
			Energy - 10.78%
			Anadarko Petroleum Corp.:
4,200,000			6.950%, due 6/15/19 8,054,216
7,083,187			6.450%, due 9/15/36 8,117,082
			Chaparral Energy, Inc., 8.500%,
			due 12/1/15 3,720,600
			Compton Petroleum Finance Corp.,
4,100,000			7.625%, due 12/1/13 (Canada) 14,334,375
			Connacher Oil & Gas Ltd., 10.250%,
19,475,000			due 12/15/15 (Canada) (a) 10,175,000
			Consol Energy Inc.:
			8.000%, due 4/1/17 (a) 2,668,750
			8.250%, due 4/1/20 (a) 2,700,000
			Denbury Resources, Inc., 8.250%,
			due 2/15/20 10,684,245
			Energy XXI Gulf Coast, Inc.:
			10.000%, due 6/15/13 4,638,319
			16.000%, due 6/15/14 10,616,529
			International Coal Group, Inc.,
			9.125%, due 4/1/18 8,340,000
			Stallion OilField Holdings, Ltd.,
			10.500%, due 2/15/15 (a) 9,900,000
			<u>93,949,116</u>
			Automobile Parts - 0.50%
			Remy International, Inc., PIK,
4,100,000			9.984%, due 12/1/14 (b) 4,376,750
			Building Products - 1.96%
			Ainsworth Lumber Co., Ltd., PIK,
19,475,000			11.000%, due 7/29/15
			(Canada) (a) 17,064,969
			Chemicals - 7.31%
			CF Industries, Inc.:
2,000,000			6.875%, due 5/1/18 2,105,000
18,000,000			7.125%, due 5/1/20 19,260,000
13,000,000			Georgia Gulf Corp., 9.000%,
			due 1/15/17 (a) 13,763,750
3,500,000			LBI Escrow Corp., 8.000%,
			due 11/1/17 (a) 3,688,125
22,999,616			Lyondell Chemical Co., 11.000%,
			due 5/1/18 (d) 24,868,334
			<u>63,685,209</u>
			Commercial Services - 2.03%
17,000,000			Dyncorp International, Inc.,
			10.375%, due 7/1/17 (a) 17,658,750

See accompanying notes to the Portfolios of Investments.

Third Avenue Trust
Third Avenue Focused Credit Fund
Portfolio of Investments (continued)
at July 31, 2010
(Unaudited)

Principal Amount (\$)		Value (Note 1)	Principal Amount (\$)	Value (Note 1)
Corporate Debt Instruments (continued)			Gaming (continued)	
	Entertainment - 1.25%		5,000,000	Midwest Gaming Borrower LLC / Midwest Finance Corp., 11.625%, due 4/15/16 (a) \$
5,000,000	Hicks Sport Group LLC, Term Loan B, due 12/15/10* (b) \$	4,575,000		5,075,000
6,250,000	Six Flags Theme Parks Inc., Term Loan, 9.250%, due 12/31/16 (b)	6,335,937		<u>25,327,323</u>
		<u>10,910,937</u>	10,775,000	Healthcare - 5.84%
	Financials - 8.67%		17,250,000	Biomet, Inc., PIK, 10.375%, due 10/15/17
	Ally Financial, Inc.:		10,000,000	HCA, Inc., PIK, 9.625%, due 11/15/16
1,000,000	8.300%, due 2/12/15 (a)	1,055,000		InVentiv Health, Inc., 10.000%, due 8/15/18 (a)
5,000,000	8.000%, due 11/1/31	4,906,250	4,500,000	US Oncology, Inc., 9.125%, due 8/15/17
	CIT Group, Inc.:		5,572,000	US Oncology Holdings, Inc., PIK, 6.643%, due 3/15/12 (b)
5,745,499	7.000%, due 5/1/15	5,565,952		<u>5,307,330</u>
14,242,498	7.000%, due 5/1/16	13,637,192		<u>50,929,518</u>
4,739,498	7.000%, due 5/1/17	4,490,674		
30,000,000	Lehman Brothers Holdings, Inc., due 3/23/09* (b)	6,450,000		Media - 5.26%
10,695,495	Marsico Parent Co. LLC, Term Loan B, 5.466%, due 12/15/14 (b)	6,952,072	9,915,581	Cengage Learning Acquisitions, Inc., Term Loan, 3.030%, due 7/3/14 (b)
	Nuveen Investments, Inc.:			Clear Channel Communications, Inc.:
21,000,000	10.500%, due 11/15/15	20,737,500	5,000,000	10.750%, due 8/1/16
2,925,000	Term Loan, 12.500%, due 7/31/15 (b)	3,166,313	16,073,000	PIK, 11.000%, due 8/1/16
8,000,000	Trans Union LLC/Transunion Financing Corp., 11.375%, due 6/15/18 (a)	8,620,000	1,000,000	Clear Channel Worldwide Holdings, Inc.:
		<u>75,580,953</u>	4,000,000	Series A, 9.250%, due 12/15/17 (a)
	Food & Beverage - 1.79%		1,395,427	Series B, 9.250%, due 12/15/17 (a)
15,000,000	Pinnacle Foods Finance LLC/ Pinnacle Foods Finance Corp., 9.250%, due 4/1/15 (a)	15,581,250	6,809,217	DEX Media West LLC, Term Loan, 7.500%, due 10/24/14 (b)
	Gaming - 2.91%		5,000,000	DEX One Corp., PIK, 12.000%, due 1/29/17
	Harrah's Operating Co., Inc.:		3,142,011	Nielsen Finance LLC/Nielsen Finance Co., 10.000%, due 8/1/14
2,000,000	11.250%, due 6/1/17	2,170,000		RH Donnelley Inc., Term Loan, 9.250%, due 10/24/14 (b)
21,000,000	Term Loan B2, 3.498%, due 1/28/15 (b)	18,082,323		2,783,297

See accompanying notes to the Portfolios of Investments.

Third Avenue Trust
Third Avenue Focused Credit Fund
Portfolio of Investments (continued)
at July 31, 2010
(Unaudited)

Principal Amount (\$)	Value (Note 1)	Principal Amount (\$)	Value (Note 1)
Corporate Debt Instruments (continued)			
	Media (continued)		Transportation - 2.10%
994,751	Spanish Broadcasting Systems Inc., Term Loan, 2.290%, due 6/10/12 (b)	3,000,000	Swift Transportation Co., Inc.: 12.500%, due 5/15/17 (a)
	\$ 896,934	7,500,000	Letter of Credit, 2.050%, due 5/10/14 (b)
	<u>45,865,546</u>	8,300,044	Term Loan B, 8.250%, due 5/10/14 (b)
	Metals & Mining - 3.31%		<u>8,100,329</u>
	FMG Finance Party, Ltd. (Australia):		<u>18,285,951</u>
2,000,000	10.000%, due 9/1/13 (a)	2,200,000	
15,998,000	10.625%, due 9/1/16 (a)	18,317,710	Utilities - 2.20%
8,000,000	Murray Energy Corp., 10.250%, due 10/15/15 (a)	8,320,000	Bosque Power Co. LLC, Term Loan, 9.500%, due 12/10/14 (b)
	<u>28,837,710</u>	500,000	Energy Future Holdings Corp., 10.000%, due 1/15/20 (a)
	Retail - 0.66%		505,000
8,835,000	Blockbuster, Inc., 11.750%, due 10/1/14 (a)	3,482,097	Texas Competitive Electric Holdings Co. LLC: Term Loan B1, 3.500%, due 10/10/14 (b)
	<u>5,786,925</u>	17,885,243	Term Loan B3, 3.500%, due 10/10/14 (b)
	Technology - 2.19%		<u>13,872,242</u>
21,858,392	First Data Corp., Term Loan B1, 3.078%, due 9/24/14 (b)	19,075,993	<u>19,142,682</u>
	Telecommunications - 8.77%		
14,000,000	Cincinnati Bell, Inc., 8.750%, due 3/15/18	13,755,000	Total Corporate Debt Instruments (Cost \$654,854,543)
	Digicel Group, Ltd. (Jamaica):		<u>671,885,891</u>
11,970,000	8.875%, due 1/15/15 (a)	12,224,362	
5,800,000	10.500%, due 4/15/18 (a)	6,235,000	Shares
	Frontier Communications Corp.:		Preferred Stocks - 0.94%
9,000,000	8.250%, due 4/15/17 (a)	9,652,500	Financials - 0.94%
5,000,000	8.500%, due 4/15/20 (a)	5,362,500	10,000 Ally Financial, Inc., 7.000% (a)
5,000,000	8.750%, due 4/15/22 (a)	5,387,500	
11,500,000	Intelsat Jackson Holdings, SA, 11.250%, due 6/15/16	12,477,500	Total Preferred Stocks (Cost \$7,658,000)
	(Luxembourg)	11,302,500	<u>8,212,813</u>
11,000,000	West Corp., 9.500%, due 10/15/14	76,396,862	

See accompanying notes to the Portfolios of Investments.

Third Avenue Trust
Third Avenue Focused Credit Fund
Portfolio of Investments (continued)
at July 31, 2010
(Unaudited)

Shares		Value (Note 1)
Common Stocks - 2.16%		
	Aerospace - 1.27%	
623,251	Aveos Fleet Performance, Inc. (c)	\$ 11,062,700
	Energy - 0.54%	
247,695	Stallion OilField Holdings, Inc. (c)	4,706,205
	Financials - 0.18%	
42,780	CIT Group, Inc. (c)	1,555,481
	Media - 0.17%	
82,533	DEX One Corp. (c)	1,495,498
	Total Common Stocks	
	(Cost \$19,415,588)	<u>18,819,884</u>
	Total Investment	
	Portfolio - 80.21%	
	(Cost \$681,928,131)	698,918,588
	Other Assets	
	less Liabilities - 19.79%	<u>172,468,216</u>
	NET ASSETS - 100.00%	<u><u>\$871,386,804</u></u>
	Investor Class:	
	Net assets applicable to 20,386,631	
	shares outstanding	<u>\$222,278,898</u>
	Net asset value, offering and	
	redemption price per share	<u>\$10.90</u>
	Institutional Class:	
	Net assets applicable to 59,534,308	
	shares outstanding	<u>\$649,107,906</u>
	Net asset value, offering and	
	redemption price per share	<u>\$10.90</u>

Notes:

PIK: Payment-in-kind.

(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.

(c) Non-income producing security.

(d) A portion of this security is segregated for future fund commitments.

* Issuer in default.

¹ Incorporated in Bermuda.

Country Concentration

	% of Net Assets
United States *	69.53%
Canada	4.77
Australia	2.36
Jamaica	2.12
Luxembourg	1.43
Total	<u>80.21%</u>

* Includes cash equivalents.

See accompanying notes to the Portfolios of Investments.

Third Avenue Trust
Notes to Portfolios of Investments
July 31, 2010
(Unaudited)

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”).

Accounting policies:

The policies described below are followed consistently by the Funds and are in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

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 may adjust the prices of securities traded in foreign markets, as appropriate, to reflect the fair value as of the time the Funds’ net asset values are calculated. 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 July 31, 2010, such securities had a total fair value of \$53,676,007 or 1.11% of net assets of Third Avenue Value Fund, \$8,818,487 or 0.83% of net assets of Third Avenue Small-Cap Value Fund, \$40,937,250 or 2.64% of net assets of Third Avenue Real Estate Value Fund and \$9,989,516 or 0.73% of net assets of Third Avenue International Value Fund. There were no fair valued securities for Third Avenue Focused Credit Fund at July 31, 2010. 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 val-

Third Avenue Trust
Notes to Portfolios of Investments (continued)
July 31, 2010
(Unaudited)

ues 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* (formerly Statement of Financial Accounting Standards (“SFAS”) No. 157), 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). FASB ASC 820-10-35-39 to 55 provides three levels of the fair value hierarchy as follows:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Funds have the ability to access at the measurement date;
- 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 Funds’ own assumptions in determining the fair value of investments).

A financial instrument’s level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes “observable” requires significant judgment by the Adviser. The Adviser 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.

Effective October 31, 2009, the Funds adopted the authoritative guidance included in FASB ASC 820-10, *Fair Value Measurements and Disclosures* (formerly FSP FAS 157-4). This FASB provides guidance in determining fair value when the volume and level of activity for the asset or liability significantly decreased and identifying transactions that are not orderly. FASB ASC 820-10-35-51A to 51H indicates that if an entity determines that either the volume and/or level of activity for an asset or liability has significantly decreased (from normal conditions for that asset or liability) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. Valuation techniques such as an income approach might be appropriate to

Third Avenue Trust
Notes to Portfolios of Investments (continued)
July 31, 2010
(Unaudited)

supplement or replace a market approach in those circumstances. The guidance provides a list of factors to determine whether there has been a significant decrease in relation to normal market activity. Regardless of the valuation technique and inputs used, the objective for the fair value measurement in those circumstances is unchanged from what it would be if markets were operating at normal activity levels and/or transactions were orderly; that is, to determine the current exit price as promulgated by FASB ASC 820-10. The guidance also requires additional disclosures regarding inputs and valuation techniques used, change in valuation techniques and related inputs, if any, and more disaggregated information relating to debt and equity securities.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary by level of inputs used to value the Funds' investments as of July 31, 2010:

	<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>
Level 1: Quoted Prices					
Investments in Securities:					
Common Stocks, Rights & Warrants:					
Advertising	\$ —	\$ —	\$ —	\$ 34,551,541	\$ —
Aerospace	—	—	—	—	11,062,700
Aerospace & Defense	—	2,327,882	—	—	—
Agriculture	—	43,001,878	—	83,894,310	—
Annuities & Mutual Fund					
Management & Sales	150,420,000	—	—	—	—
Automotive	469,282,146	—	—	—	—
Banks	—	1,014,000	—	—	—
Building & Construction					
Products/Services	—	—	—	7,682,446	—
Capital Goods	—	—	—	17,639,691	—
Chemical & Allied Products	—	43,113,256	—	—	—
Computer Peripherals	—	20,364,293	—	—	—
Consumer Products	—	34,604,535	—	—	—
Corporate Services	—	—	—	8,778,552	—
Depository Institutions	110,218,827	—	—	—	—
Diversified Operations	484,450,684	—	—	97,706,785	—
Electronics Components	—	63,323,739	—	124,790,147	—
Energy	—	—	—	—	—
Energy/Services	—	76,045,553	—	—	—
Financials	—	—	—	—	1,555,481
Forest Products & Paper	—	30,716,419	10,631,577	43,275,984	—

Third Avenue Trust
Notes to Portfolios of Investments (continued)
July 31, 2010
(Unaudited)

Level 1 (continued)	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
Healthcare Services	\$ —	\$ 50,511,052	\$ —	\$ —	\$ —
Holding Companies	1,147,320,368	94,100,765	—	135,062,040	—
Homebuilder	—	—	12,554,500	—	—
Industrial & Agricultural Equipment	3,510,975	—	—	—	—
Industrial Equipment	—	28,327,410	—	—	—
Insurance	—	—	—	138,946,337	—
Industrial Services	—	2,637,380	—	—	—
Insurance & Reinsurance	—	44,528,975	—	—	—
Investment Companies	—	—	—	27,570,817	—
Life Insurance	—	29,964,850	—	—	—
Machinery	—	—	—	33,023,545	—
Media	—	9,887,006	—	5,291,556	1,495,498
Metals & Mining	—	—	—	53,088,590	—
Metals Manufacturing	—	55,451,421	—	—	—
Mutual Holding Companies	10,330,001	—	—	—	—
Non-U.S. Closed End Fund	—	—	13,663,867	2,644,528	—
Non-U.S. Real Estate	—	—	—	—	—
Consulting/Management	—	—	16,560,918	—	—
Non-U.S. Real Estate Investment Trusts	—	—	174,961,331	—	—
Non-U.S. Real Estate	—	—	—	—	—
Operating Companies	923,873,355	71,108,837	631,800,918	58,466,992	—
Oil & Gas	—	17,803,997	—	—	—
Oil & Gas Production & Services	318,755,057	—	—	54,222,255	—
Other Financial	—	—	—	37,855,147	—
Pharmaceuticals	—	—	—	47,974,336	—
Securities Trading Services	—	33,319,583	—	—	—
Semiconductor Equipment	—	—	—	—	—
Manufacturers & Related	—	17,822,218	—	—	—
Software	—	33,189,374	—	—	—
Steel & Specialty Steel	364,035,000	—	—	—	—
Technology-Hardware	—	—	—	37,589,884	—
Telecommunications	78,535,905	17,653,521	—	79,542,506	—
Transportation	—	—	—	35,191,539	—
U.S. Real Estate Investment Trusts	—	—	86,312,480	—	—
U.S. Real Estate Operating Companies	215,793,745	82,227,772	199,939,749	—	—
Utilities, Utility Service Companies & Waste Management	132,870,517	—	—	—	—

Third Avenue Trust
Notes to Portfolios of Investments (continued)
July 31, 2010
(Unaudited)

	<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>
Level 1 (continued)					
Preferred Stocks:					
Financials	\$ —	\$ —	\$ —	\$ —	\$ 8,212,813
Insurance & Reinsurance	8,354	—	—	—	—
Limited Partnerships:					
Infrastructure	6,956,000	—	—	—	—
Total for Level 1 Securities	<u>4,416,360,934</u>	<u>903,045,716</u>	<u>1,146,425,340</u>	<u>1,164,789,528</u>	<u>22,326,492</u>
Level 2: Other Significant Observable Inputs					
Investments in Securities:					
Common Stock:					
Energy	—	—	—	—	4,706,205
U.S. Real Estate Operating Companies	—	—	52,007,654	—	—
Corporate Debt Instruments	130,950,000	29,622,775	53,153,253	—	671,885,891
Purchased Options:					
Foreign Currency Put Options	—	3,052,143	470,000	1,753,125	—
Short Term Investments:					
U.S. Government Obligations	174,938,750	72,995,080	78,440,748	103,974,692	—
Total for Level 2 Securities	<u>305,888,750</u>	<u>105,669,998</u>	<u>184,071,655</u>	<u>105,727,817</u>	<u>676,592,096</u>
Level 3: Significant Unobservable Inputs					
Investments in Securities:					
Common Stocks:					
Auto Supply	231,939	—	—	—	—
Consumer Products	26,318	—	—	—	—
Financial Insurance	555,000	—	—	—	—
Forest Products & Paper	—	2,975,987	—	9,989,516	—
Insurance & Reinsurance	187,188	—	—	—	—
Manufactured Housing	35,000,000	—	—	—	—
U.S. Real Estate Operating Companies	7,941,381	—	5,433,104	—	—
Limited Partnerships:					
Holding Companies	—	5,842,500	—	—	—
Insurance & Reinsurance	311,040	—	—	—	—
Investment Fund	—	—	35,504,146	—	—
Preferred Stocks:					
Insurance & Reinsurance	236,158	—	—	—	—
Corporate Debt Instruments	9,186,983	—	—	—	—
Total for Level 3 Securities	<u>53,676,007</u>	<u>8,818,487</u>	<u>40,937,250</u>	<u>9,989,516</u>	<u>—</u>
Total Value of Investments	<u>\$4,775,925,691</u>	<u>\$1,017,534,201</u>	<u>\$1,371,434,245</u>	<u>\$1,280,506,861</u>	<u>\$ 698,918,588</u>

Third Avenue Trust
Notes to Portfolios of Investments (continued)
July 31, 2010
(Unaudited)

	<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>
Level 2 (continued)					
Investments in Other Financial Instruments:					
Level 2: Other Significant Observable Inputs					
Options Written	\$ —	\$ —	\$ (3,417,020)	\$ —	\$ —
Total Value of Other Financial Instruments	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (3,417,020)</u>	<u>\$ —</u>	<u>\$ —</u>

Following is a reconciliation of Level 3 investments for which significant unobservable inputs were used to determine fair value:

	<u>Balance as of 10/31/09 (fair value)</u>	<u>Net change in unrealized appreciation/ (depreciation)</u>	<u>Net purchases/ (sales)</u>	<u>Payment- in-kind interest</u>	<u>Net realized gain</u>	<u>Transfer in/(out) Level 3</u>	<u>Balance as of 7/31/10 (fair value)</u>	<u>Net change in unrealized appreciation/ (depreciation) attributable to assets still held at period end</u>
Third Avenue Value Fund								
Common Stocks:								
Auto Supply	\$ —	\$(3,236,795)	\$ —	\$ —	\$ —	\$ 3,468,734	\$ 231,939	\$(3,236,795)
Consumer Products	26,318	—	—	—	—	—	26,318	—
Financial Insurance	38,067	518,000	(15,485)	—	14,418	—	555,000	518,000
Insurance & Reinsurance	485,375	(298,187)	—	—	—	—	187,188	(298,187)
Manufactured Housing	35,000,000	—	—	—	—	—	35,000,000	—
U.S. Real Estate								
Operating Companies	7,077,981	863,400	—	—	—	—	7,941,381	863,400
Corporate Debt Instruments	14,647,545	(5,940,616)	—	480,054	—	—	9,186,983	(5,940,616)
Limited Partnerships:								
Insurance & Reinsurance	234,146	76,894	—	—	—	—	311,040	76,894
Preferred Stocks:								
Insurance & Reinsurance	271,577	(35,419)	—	—	—	—	236,158	(35,419)
Total	<u>\$57,781,009</u>	<u>\$(8,052,723)</u>	<u>\$ (15,485)</u>	<u>\$480,054</u>	<u>\$ 14,418</u>	<u>\$ 3,468,734</u>	<u>\$53,676,007</u>	<u>\$(8,052,723)</u>
Third Avenue Small-Cap Value Fund								
Common Stocks:								
Forest Products & Paper	\$ 5,167,444	\$(2,191,457)	\$ —	\$ —	\$ —	\$ —	\$ 2,975,987	\$(2,191,457)
Limited Partnerships:								
Holding Companies	6,412,500	(570,000)	—	—	—	—	5,842,500	(570,000)
Total	<u>\$11,579,944</u>	<u>\$(2,761,457)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8,818,487</u>	<u>\$(2,761,457)</u>

Third Avenue Trust
Notes to Portfolios of Investments (continued)
July 31, 2010
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	<u>Balance as of 10/31/09 (fair value)</u>	<u>Net change in unrealized appreciation/ (depreciation)</u>	<u>Net purchases/ (sales)</u>	<u>Return of capital</u>	<u>Transfer in/(out) Level 3</u>	<u>Balance as of 7/31/10 (fair value)</u>	<u>Net change in unrealized appreciation/ (depreciation) attributable to assets still held at period end</u>
Third Avenue Real Estate Value Fund							
Common Stocks:							
U.S. Real Estate Operating Companies	\$59,252,009	\$ 590,696	\$ —	\$ —	\$(54,409,601)	\$ 5,433,104	\$ 590,696
Limited Partnerships:							
Investment Fund	<u>—</u>	<u>2,176,317</u>	<u>34,034,521</u>	<u>(706,692)</u>	<u>—</u>	<u>35,504,146</u>	<u>2,176,317</u>
Total	<u>\$59,252,009</u>	<u>\$ 2,767,013</u>	<u>\$34,034,521</u>	<u>\$(706,692)</u>	<u>\$(54,409,601)</u>	<u>\$40,937,250</u>	<u>\$ 2,767,013</u>
Third Avenue International Value Fund							
Common Stocks:							
Forest Products & Paper	\$ 17,345,597	\$(7,356,081)	\$ —	\$ —	\$ —	\$ 9,989,516	\$(7,356,081)

Security transactions:

Security transactions are accounted for on a trade date 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 denominated in foreign currencies:** At the prevailing rates of exchange on the valuation date.
- **Investment transactions:** At the prevailing rates of exchange on the date of such transactions.

Option contracts:

The Funds may invest in derivatives for various hedging and non-hedging purposes, including to hedge against foreign currency risk.

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 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

Third Avenue Trust
Notes to Portfolios of Investments (continued)
July 31, 2010
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close of each day's trading. The cost of 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 from investments. 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 counterparty 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.

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 U.S. government or corporate issuers, or by collateral such as mortgages. The indices and prices upon which such securities can be based include interest rates, currency rates and commodities prices. Floating rate securities pay interest according to a coupon which is reset periodically. The reset mechanism may be formula based on, or reflect the passing through of, floating interest payments on an underlying collateral pool. These obligations generally exhibit a low price volatility for a given stated maturity or average life because their coupons adjust with changes in interest rates.

Repurchase agreements:

The Funds may invest excess cash in repurchase agreements whereby the Funds purchase securities, which serve as collateral, with an agreement to resell such collateral at the maturity date of the repurchase agreement. Securities pledged as collateral for repurchase agreements are held by the Funds' custodian bank until maturity of the repurchase agreement. Provisions in the agreements require that the market value of the collateral is at least equal to the repurchase value in the event of default. In the event of default, the Funds have the right to liquidate the collateral and apply the proceeds in satisfaction of the obligation. Under certain circumstances, in the event of default or bankruptcy by the other party to the agreement, realization and/or retention of the collateral may be subject to legal proceedings.

Third Avenue Trust
Notes to Portfolios of Investments (continued)
July 31, 2010
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2. INVESTMENTS

The following information is based upon the book basis of investment securities as of July 31, 2010:

	<u>Value Fund</u>	<u>Small-Cap Value Fund</u>	<u>Real Estate Value Fund</u>	<u>International Value Fund</u>	<u>Focused Credit Fund</u>
Gross unrealized appreciation	\$1,181,186,152	\$ 147,898,236	\$ 247,298,519	\$ 151,228,346	\$ 24,596,113
Gross unrealized depreciation	<u>(656,749,889)</u>	<u>(212,357,279)</u>	<u>(185,026,759)</u>	<u>(269,028,041)</u>	<u>(7,605,656)</u>
Net unrealized appreciation/ (depreciation)	\$ 524,436,263	\$ (64,459,043)	\$ 62,271,760	\$ (117,799,695)	\$ 16,990,457
Aggregate book cost	<u>\$4,251,489,428</u>	<u>\$1,081,993,244</u>	<u>\$1,309,162,485</u>	<u>\$1,398,306,556</u>	<u>\$681,928,131</u>

3. COMMITMENTS AND CONTINGENCIES

Third Avenue Value Fund has committed a \$1,755,000 capital investment to RS Holdings of which \$1,022,245 has been funded as of July 31, 2010. Under certain circumstances this commitment may be payable to RS Holdings, although the Adviser believes that this commitment is no longer enforceable. Accordingly, Third Avenue Value Fund has segregated securities valued at \$732,755 to meet this contingency.

Third Avenue Small-Cap Value Fund has committed \$5,000,000 to Swift Transportation Co., Inc. pursuant to a revolving credit loan, of which the entire amount has not been funded as of July 31, 2010. This commitment may be payable upon demand of Swift Transportation Co., Inc. Accordingly, Third Avenue Small-Cap Value Fund has segregated securities valued at \$5,000,000 to meet this contingency.

Third Avenue Real Estate Value Fund has committed a \$40,000,000 capital investment to Alliance Bernstein Legacy (C1) L.P. of which \$34,000,000 has been funded as of July 31, 2010. This commitment may be payable upon demand of Alliance Bernstein Legacy (C1) L.P. Accordingly, Third Avenue Real Estate Value Fund has segregated securities valued at \$6,000,000 to meet this contingency.

Third Avenue Focused Credit Fund has committed \$10,000,000 to American Capital Ltd. pursuant to a revolving credit loan, of which the entire amount has not been funded as of July 31, 2010. This commitment may be payable upon demand of American Capital Ltd. Accordingly, Third Avenue Focused Credit Fund has segregated securities valued at \$10,000,000 to meet this contingency.

Third Avenue Focused Credit Fund has committed \$2,574,468 to Aveos Fleet Performance, Inc. pursuant to a revolving credit loan, of which the entire amount has not been funded as of July 31, 2010. This commitment may be payable upon demand of Aveos Fleet Performance, Inc. Accordingly, Third Avenue Focused Credit Fund has segregated securities valued at \$2,574,468 to meet this contingency.

Third Avenue Trust
Notes to Portfolios of Investments (continued)
July 31, 2010
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Third Avenue Focused Credit Fund has committed \$25,000,000 to MultiPlan Inc. pursuant to a bridge participation agreement, of which the entire amount has not been funded as of July 31, 2010. This commitment may be payable upon demand of MultiPlan Inc. Accordingly, Third Avenue Focused Credit Fund has segregated securities valued at \$25,000,000 to meet this contingency.

Third Avenue Focused Credit Fund has committed \$1,000,000 to Swift Transportation Co., Inc. pursuant to a revolving credit loan, of which the entire amount has not been funded as of July 31, 2010. This commitment may be payable upon demand of Swift Transportation Co., Inc. Accordingly, Third Avenue Focused Credit Fund has segregated securities valued at \$1,000,000 to meet this contingency.

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.

For additional information regarding the accounting policies of the Funds, refer to the most recent financial statements in the N-CSR filing at www.sec.gov.

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