



THIRD AVENUE VALUE FUND

THIRD AVENUE SMALL-CAP VALUE FUND

THIRD AVENUE REAL ESTATE VALUE FUND

THIRD AVENUE INTERNATIONAL VALUE FUND

LETTERS TO OUR SHAREHOLDERS

Third Quarter Commentary

July 31, 2005

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If you should have any questions, please call 1-800-443-1021, or visit our web site at: www.thirdavenuefunds.com, for updated information or a copy of our prospectus. Current performance results may be lower or higher than performance numbers quoted in certain letters to shareholders.

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Third Avenue Value Fund



MARTIN J. WHITMAN
CO-CHIEF INVESTMENT OFFICER
& PORTFOLIO MANAGER OF
THIRD AVENUE VALUE FUND

Dear Fellow Shareholders:

At July 31, 2005, the end of the Fund's third fiscal quarter, the unaudited net asset value attributed to the 102,647,910 common shares outstanding of the Third Avenue Value Fund ("TAVF", "Third Avenue" or the "Fund") was \$57.30 per share. This compares with an unaudited net asset value of \$53.33 per share at April 30, 2005, and an unaudited net asset value at July 31, 2004 of \$44.67 per share adjusted for a subsequent distribution to shareholders. At September 1, 2005, the unaudited net asset value was \$57.85 per share.

QUARTERLY ACTIVITY*

Principal activities during the quarter were as follows:

Principal Amount or Number of Shares

\$9,170,006

7,925,000 shares

5,881,577 shares

New Positions Acquired

FNC Realty Corp. 7% Convertible Notes due 2008 ("FNC Converts")

Cheung Kong Holdings Ltd. Common Stock ("Cheung Kong Common")

FNC Realty Corp. Common Stock ("FNC Common")

Principal Amount or Number of Shares

1,292,000 shares

\$193,000,000

701,150 shares

4,281,267 shares

1,017,031 shares

3,219,000 shares

903,735 shares

7,994,800 shares

New Positions Acquired (continued)

Hang Lung Properties Ltd. Common Stock ("Hang Lung Common")

Increases in Existing Positions

Collins and Aikman Products Senior Unsecured Notes ("Collins and Aikman Senior Unsecureds")

Brascan Corp. Class A Common Stock ("Brascan Common")

Danielson Holding Corp. Common Stock ("Danielson Common")

Forest City Enterprises Inc. Class A Common Stock ("Forest City Common")

Henderson Land Development Co., Ltd. Common Stock ("Henderson Common")

Instinet Group Inc. Common Stock ("Instinet Common")

Liu Chong Hing Bank, Ltd. Common Stock ("Liu Chong Common")

* 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, 2005: Toyota Industries Corp., 6.00%; USG Corporation, 5.15%; The St. Joe Company, 3.93%; MBIA, Inc. 3.59%; Tejon Ranch Co., 3.57%; Brascan Corp., 2.78%; Forest City Enterprises, 2.77%; Posco (ADR), 2.63%; Legg Mason Inc., 2.52%; and Millea Holdings, Inc. (ADR), 2.35%.



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

500,000 shares

**Increases in Existing Positions
(continued)**

MBIA Inc. Common Stock
("MBIA Common")

75,000 shares

Posco ADRs ("Posco Common")

359,126 shares

RHJ International Common Stock
("RHJ Common")

943,700 shares

Toyota Industries Corp. Common Stock
("Toyota Industries Common")

Positions Reduced

478,500 shares

BankAtlantic Bancorp Inc.
Class A Common Stock
("BankAtlantic Common")

693,980 shares

CRT Properties Inc. Common Stock
("CRT Common")

2,250,000 shares

Sears Holding Corp. Common Stock
("Sears Common")

Positions Eliminated

\$20,650,000

Covanta Letter of Credit
("Covanta Letter of Credit")

250,787 units

Citigroup Inc. Litigation Tracking
Warrants ("Citigroup Warrants")

1,308,740 shares

Innovative Clinical Solutions Ltd.
Common Stock ("ICSL Common")

247,200 shares

Planar Systems Inc. Common Stock
("Planar Common")

4,847,600 shares

Quanta Services Inc. Common Stock
("Quanta Common")

295,217 shares

Trenwick Group Ltd. Common Stock
("Trenwick Common")

2,350,695 shares

Frank's Nursery & Crafts Inc. Common
Stock ("Frank's Common")

The Fund is now the largest senior unsecured creditor of Collins and Aikman, which is operating in Chapter 11. David Barse, as a TAVF representative, is Chairman of

the Official Committee of Unsecured Creditors. Collins and Aikman is a considerably more troubled debtor than we had assumed based on Pre-Chapter 11 public filings. The situation may be difficult to work out, but I think the odds favor Third Avenue becoming the dominant common shareholder in a reorganized, and feasible, Collins and Aikman. There are, of course, no guaranties. In our long history of investing in distressed debt, our most successful investments were full of Collins and Aikman type unpleasant surprises that arose immediately subsequent to Chapter 11 filings. The eventual workouts, though, were spectacular for Nabors Industries, Danielson Holding Corporation and Kmart.

Frank's Nursery and Crafts was an unsuccessful investment because that company never could make it as a retailer. Several different managements failed while the Fund was a bondholder and, after the first Chapter 11 reorganization, a common stockholder. Frank's is now reorganized as FNC Realty Corp. ("FNC"). In the reorganization, TAVF acquired FNC Converts and FNC Common. Reorganized FNC has entered into a development agreement with subsidiaries of Kimco Realty for the purpose of undertaking the redevelopment of approximately 40 owned properties. FNC seems to have long-term promise.

A majority of the Fund's common stock portfolio is invested in the issues of extremely well-capitalized companies where TAVF was able to acquire shares at prices which represented meaningful discounts from readily ascertainable net asset values. Common stock acquisitions during the quarter which meet this description were Hang Lung Common, Henderson Common and Liu Chong Common. Hang Lung and Henderson are property development companies and Liu Chong is a commercial bank. All three are headquartered in Hong Kong. As part of Third Avenue's "safe and cheap*" approach to investing,

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



we would much prefer to invest in the United States rather than in Hong Kong, or anyplace else, assuming that other things are close to equal. But they are not. Probably the best way to characterize our large presence in Hong Kong is to call it “less safe, more cheap.”

There are times when market prices become relatively depressed for securities Fund management thinks are attractive. Thus, during the quarter, TAVF added to its positions in MBIA Common, Posco Common, RHJ Common and Toyota Industries Common. Relatively large positions were also acquired during the quarter in Danielson Common in connection with a rights offering; Forest City Common in connection with a private placement of restricted stock; and Brascan Common in the open market. Neither Forest City Common nor Brascan Common appear to be selling at meaningful discounts from readily ascertainable net asset values; but both managements seem so superb that the recent purchases by the Fund ought to have great probabilities of working out well.

Danielson seems well on its way to becoming a dominant factor in the U.S. waste-to-energy business. Danielson, however, is less well financed than are the other companies whose common stocks are in the TAVF portfolio. Instinet Common is a short-run arbitrage since the company is expected to be acquired for cash by NASDAQ within the next few months.

Sears Holding seems to be an exceedingly well-managed company with very good prospects that the company will succeed as one of the nation's largest retailers. However, success is far from assured. At the prices at which Sears Common is now selling, the company has to succeed in a big way in order to justify these prices. Against this background, it seemed prudent to lighten up the Fund's position in Sears Common.

There exists today a boom in residential housing. There aren't too many things one can say with certainty about

the housing situation. One thing seems certain, though; in today's market, mortgage lenders and home equity lenders are taking tremendous credit risks for which they are not being adequately compensated, given the low interest rates in existence. Third Avenue does not want to be involved with issuers which have large portfolios of mortgages receivable and home equity loans. Thus, the sale of Bankatlantic Common. In the late 1980's and early 1990's, a lot of financial institutions got into trouble because they expanded their residential mortgage portfolios using “low doc” (doc stands for documentation) and “no doc” loan agreements. It's worse now. Many financial institutions seem to be holding the equivalent of “low cost” or “no cost” loans from a borrower's point of view.

CRT Properties is being sold for cash in the coming months. The sale of CRT Common was at a price close to the expected work-out value.

TAVF cleaned out small holdings during the quarter with emphasis on trying to realize losses for tax purposes. Fund sales for these purposes were Citigroup Warrants, ICSL Common, Planar Common and Trenwick Common. The Covanta Letter of Credit was repaid at its principal amount plus accrued interest during the quarter.

While the Quanta Common investment was highly profitable for the Fund, the Quanta business has been a disappointment since the shares were acquired in 2002. Reasonable levels of earnings just never developed. The elimination of the position in Quanta Common seems sensible at this time. The company is no longer comfortably financed, albeit the balance sheet seems adequate.

The bad news about our activities in fiscal 2005 is that most of the Fund's shareholders probably will suffer from relatively large income tax impacts. The sales of Sears Common, Quanta Common and Bankatlantic Common at huge profits will give rise to a material amount of long-



term capital gains. But here, investment considerations proved more important to Fund management than did income tax considerations, driven by the fact that for most Third Avenue shareholders, the maximum federal tax rate on long-term capital gains will be only 15%. As of July 31, 2005, net long-term capital gains amounted to approximately \$4.35 per TAVF share. In addition, TAVF holds various common stocks, principally Toyota Industries Common, which companies are likely to be Passive Foreign Investment Companies (“PFIC”) for U.S. income tax purposes. TAVF shareholders will be taxed at ordinary income tax rates on the annual unrealized appreciation of TAVF’s holdings of PFIC Common Stocks. There is no way to know before October 2005, the amount of unrealized appreciation for Third Avenue’s PFIC holdings. However, at July 31, 2005, PFIC unrealized appreciation is estimated to have amounted to about \$0.94 per TAVF share. Of course, both of these numbers could change substantially before year end, based on either changes in the market or future portfolio management considerations.

THE CURRENT STATE OF “SAFE AND CHEAP” ANALYSIS

A few months ago, I signed an agreement with Wiley to update the 1979 book of which I was the senior author, *The Aggressive Conservative Investor*. The updated version ought to be out in November. In updating the book, I was shocked and amazed because prior to researching and writing the update, I never realized how much public disclosure had advanced and improved in the last 26 years. These revolutionary improvements have taken place both in substantive disclosures and in delivery systems.

The public record now comes pretty close a good deal of the time to “full disclosure”. What a boon for “safe and cheap” investors.

Proof of this, for me, as to how good disclosure has gotten centers around the work being done by the 17 people who are the analysts and portfolio managers at Third Avenue Management. Twice weekly — Tuesday and Thursday — an analyst presents in writing to the rest of us, a report on a specific security. These reports are comprehensive and tell us what we want to know as long-term buy and hold investors both as to upside potentials, and more importantly, investment risks. This stuff was just not available in 1979. Admittedly, these twice a week reports probably aren’t very helpful for short-run traders — but that is not what we do.

“Twice weekly — Tuesday and Thursday — an analyst presents in writing to the rest of us, a report on a specific security. These reports are comprehensive and tell us what we want to know as long-term buy and hold investors both as to upside potentials, and more importantly, investment risks.”

Disclosures are, indeed, now so good that if our investment choices are bad, it is not because we couldn’t know what we wanted or needed to know, but rather our judgments proved to be bad in a world full of uncertainties that can never be cured by more disclosure.

Of course, the analysts at Third Avenue Management do have an easier job using disclosures than do most analysts, who seem to focus on forecasting near-term earnings or near-term cash flows and predicting near-term target prices for common stocks. In contrast, the Third Avenue Management analysts follow a balanced approach, focusing on the long-term and underlying values. At Third Avenue, there is no primacy of the income account. Indeed, if there has to be emphasis on just one factor (and there doesn’t have to be any such emphasis), the one factor



at Third Avenue would be quality of the balance sheet, rather than the near-term earnings outlook.

One problem for “safe and cheap” portfolio management that exists today is the lack of cash return available from holding credit-worthy debt instruments, rather than common stocks. This disadvantage obviously will persist as long as interest rates stay low. A portion of TAVF’s long-term record ought to be attributed to the availability of credit-worthy debt instruments as alternative investments yielding, say, 8% to 10%. Such instruments return less than 5% today.

“Safe and cheap” investing allows a portfolio manager to be far more concentrated in his, or her, investments, than is the case for conventional money managers. TAVF is far less diversified than any other mutual fund of comparable size of which I am aware. Yet, I am quite comfortable with the relatively concentrated portfolio. At July 31, 2005, the Fund’s 12 largest holdings accounted for 55.3% of Third Avenue’s net assets exclusive of cash and equivalents. These 12 holdings were as follows:

Issue	% of Portfolio Excluding Cash
Toyota Industries Common	8.10%
USG Senior Debt	6.95
St. Joe Common	5.30
MBIA Common	4.85
Tejon Ranch Common	4.81
Cheung Kong & Hutchinson	
Whampoa Commons	4.81
Brascan Common	3.75
Forest City Common	3.73
Posco Common	3.55
Legg Mason Common	3.40
Millea Holdings ADR	3.18
AVX Common	2.84
	<u>55.27%</u>

The United States, as a debtor nation, keeps exporting dollars abroad. Those dollars are then invested. Many, if not most, of these dollars will be reinvested in this country. In general, there are only three areas in which those exported dollars can be invested: credit instruments without credit risk, e.g., U.S. Treasuries; other securities, which are passive investments; and direct investments. Direct investing entails building new assets, buying into existing real estate, and/or buying into existing corporations. These direct investments almost always are characterized by changes in control, or elements of control. The vast majority of direct investments are likely to be friendlies, i.e., negotiated transactions. Both credit instruments without credit risk and passive investments seem to be limited areas for the billions, or trillions, being invested using U.S. dollars. Increasingly, those overseas dollars seem likely to be used for control investments in the U.S. If so, this ought to be good news for “safe and cheap” investors such as TAVF. Much of the Third Avenue portfolio ought to be attractive for Chinese, Indian, Hong Kong and Japanese holders of surplus U.S. dollars. These buyers probably will have to pay premium prices for control.

I will write you again when the Annual Report for the fiscal year to end October 31, 2005 is published.

Sincerely yours,

Martin J. Whitman
Chairman of the Board



Third Avenue Small-Cap Value Fund



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

Dear Fellow Shareholders:

At July 31, 2005, the end of the Fund's third fiscal quarter, the unaudited net asset value attributable to the 69,298,979 common shares outstanding of the Third Avenue Small-Cap Value Fund ("Small-Cap Value" or the "Fund") was \$24.47 per share, compared with the Fund's unaudited net asset value of \$21.84 per share at April 30, 2005, and an unaudited net asset value at July 29, 2004 of \$19.77 per share, adjusted for a subsequent distribution to shareholders. At September 1, 2005, the unaudited net asset value was \$24.58 per share.

QUARTERLY ACTIVITY*

During the quarter, Small-Cap Value established seven new positions, added to 15 of its existing positions, eliminated four positions and reduced its holdings in three companies. At July 31, 2005, Small-Cap Value held positions in 76 common stocks, the top 10 positions of which accounted for approximately 20% of the Fund's net assets.

Number of Shares

862,451 shares

756,800 shares

259,144 shares

459,350 shares

697,239 shares

579,300 shares

800,000 shares

169,400 shares

New Positions Acquired

Borland Software Corp. Common Stock ("Borland Common")

Comstock Resources, Inc. Common Stock ("Comstock Common")

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

Ingram Micro, Inc. Class A Common Stock ("Ingram Common")

Magma Design Automation, Inc. Common Stock ("Magma Common")

Maverick Tube Corporation Common Stock ("Maverick Common")

Rosetta Resources, Inc. 144A Common Stock ("Rosetta Common")

Increases in Existing Positions

American Axle & Manufacturing Holdings, Inc. Common Stock ("Axle 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, 2005: Sears Holding Corp., 2.66%; Whiting Petroleum Co., 2.56%; Brascan Corp., 2.06%; Pogo Producing Co., 1.97%; The St. Joe Company, 1.94%; Fording Canadian Coal Trust, 1.90%; TimberWest Forest Corp., 1.66%; St. Mary Land and Exploration Co., 1.62%; Forest City Enterprises, Inc., 1.59%; and Agrium, Inc., 1.52%.



Number of Shares	Increases in Existing Positions (continued)	Number of Shares	Positions Eliminated
10,400 shares	Bandag, Inc. Common Stock ("Bandag Common")	557,625 shares	Ascential Software Corp. Common Stock ("Ascential Common")
608 shares	Bel Fuse, Inc. Class B Common Stock ("Bel Common")	213,584 shares	Hutchinson Technology Corp. Common Stock ("Hutchinson Common")
1,241,655 shares	Instinet Group Corp. Common Stock ("Instinet Common")	104,470 shares	IXYS Corporation Common Stock ("IXYS Common")
83,200 shares	JAKKS Pacific, Inc. Common Stock ("JAKKS Common")	1,592,300 shares	Quanta Services, Inc. Common Stock ("Quanta Common")
16,200 shares	Lindsay Manufacturing Company Common Stock ("Lindsay Common")	QUARTERLY ACTIVITY	
39,923 shares	PAREXEL International Corp. Common Stock ("Parexel Common")	Fund management added seven new positions during the quarter, and added to several existing positions, allocating more than \$85 million to its purchases. Offsetting the use of funds for these purchases were new capital inflows to the Fund, and the partial sale or disposition of a number of holdings, discussed in more detail below.	
15,000 shares	Pogo Producing Co. Common Stock ("Pogo Common")	Fund management continued to add to its energy-related holdings with new positions in Comstock Resources Common, Maverick Tube Common, and Rosetta Resources Common, additions that were made more attractive by a steep, albeit brief, decline in energy-related commodity prices early in the quarter, and in related oil and gas company common stock prices. Comstock's primary energy properties include onshore reserves in south and east Texas and Louisiana, and a 47% ownership in publicly traded Bois D'Arc Energy (NYSE:BDE), an exploration-focused, Gulf of Mexico producer. With natural gas comprising more than 80% of its reserves, Comstock combines both a successful track record in its exploration programs with a multi-year inventory of relatively low risk onshore drill sites. Shares were purchased at a valuation that attributed little value to the company's holding in Bois D'Arc Energy, and at a modest multiple of 2005 operating cash flow. Maverick Tube is one of the largest domestic producers of tubular steel products used in both energy and industrial applications. The company's energy products, which	
11,000 shares	Russ Berrie and Co. Common Stock ("Russ Berrie Common")		
18,100 shares	St. Mary Land and Exploration Co. Common Stock ("St. Mary Common")		
60,000 shares	Sybase, Inc. Common Stock ("Sybase Common")		
564,100 shares	Sycamore Networks, Inc. Common Stock ("Sycamore Common")		
100,000 shares	Synopsys, Inc. Common Stock ("Synopsys Common")		
10,000 shares	Tidewater, Inc. Common Stock ("Tidewater Common")		
29,300 shares	Whiting Petroleum Co. Common Stock ("Whiting Common")		
Positions Reduced			
137,600 shares	CRT Properties, Inc. Common Stock ("CRT Common")		
86,300 shares	Superior Industries, Inc. Common Stock ("Superior Common")		
209,550 shares	Wellsford Real Properties, Inc. Common Stock ("Wellsford Common")		



accounted for nearly two-thirds of its sales, and known as Oil Country Tubular Goods (“OCTG”), include the tubing, casing and pipes used in drilling for oil and gas. Shares were purchased at less than two times GAAP book value, and at single digit multiples of 2004 and 2005 earnings, which appear to be at or near peak levels.

Under mounting pressure to reduce its debt load, Calpine Corporation formed Rosetta Resources as a means of selling its remaining oil and gas assets. Rosetta, whose reserves are 96% natural gas, operates primarily in California’s Sacramento Basin, South Texas and, to a lesser extent, the Gulf of Mexico and Rocky Mountains. Rosetta’s assets have been largely under exploited, owing to parent Calpine’s constrained finances during the past few years. The shares were purchased in a private placement pursuant to Rule 144A of the Securities Act¹, meaning the shares had no public market for a period of 30 days subsequent to the offering. As I write, Rosetta shares trade in a limited fashion on the PORTAL Market, which is operated by The NASDAQ Stock Market, Inc[®]. It is anticipated that the company will file a registration statement, enabling the resale of the company’s shares within nine to 12 months of the closing of the offering. With these additions, and 20% to 30% appreciation during the quarter in many of the energy shares held by the Fund, oil and gas related common stocks comprised approximately 12% of the Fund’s assets as of July 31, 2005, up from approximately 9% at April 30, 2005.

The Fund also concentrated part of its new purchase activity on the common stocks of technology companies, including two software companies, a capital equipment company, and a distributor. Of note, perhaps, is the Fund’s purchase of Borland Software Common. Borland is a provider of software development tools, products

aimed at improving software project efficiency and success (from the definition, design and development stages to testing and configuration management). Competitively, Borland appears to be struggling. However, shares of this debt-free, cash-rich and cash-generative business were purchased at modest multiples of cash flow and GAAP book value, and appear to trade at a wide discount to what an acquirer might pay for the whole company. At least one of the company’s shareholders, a former director of the company, is agitating for change that might improve corporate value. Borland Common is part of the Fund’s “basket” of software companies, a group that may well shrink in number in coming periods to the extent industry consolidation persists, as seems likely.

As noted above and in earlier Fund letters, the maturing software industry continues to experience more merger and acquisition activity, a trend which benefited the Fund during the quarter. IBM purchased Ascential Software at an 18% premium to prevailing market prices, and at a much larger premium to the Fund’s cost basis. The Fund exited its position in Quanta Common as Quanta struggles to realize profitability from its growing backlog, and continues to carry a significant debt load. Wellsford Common and CRT Common were sold in response to “Resource Conversion” activity. Wellsford’s Board of Directors has approved a liquidation plan, to be completed during the next one to three years, and intends to have the company’s shares delisted. CRT Common is the subject of a going private transaction whose value, \$27.80 per CRT share, represented a healthy premium over the Fund’s cost basis, and a 15% premium to the prevailing market price at the time the transaction was announced.

¹ Securities Act of 1933, as amended.



A VIEW FROM CHINA

*If You Won't Go into the Tiger's Lair,
How Can You Catch the Cubs?*²

Han Dynasty Proverb 202 B. C. – A.D. 220

Wearing my hat as Third Avenue Management's Co-Chief Investment Officer, in July I traveled to mainland China to visit Chinese companies in industries as diverse as pharmaceuticals, IT outsourcing, oil and gas, medical devices, shipping, software, and real estate. The motivation and purpose for such a trip was multifold:

- By meeting with representatives from a broad swath of businesses, academia and government, I felt that I could find clues about businesses Third Avenue Management ("TAM") owns or competes with, or might own, or about developments that might weigh on TAM's investment decisions, all while building a better investing perspective;

- I had an opportunity to travel with four friends from business school who not only speak the language and understand the culture (indeed, two are Shanghai natives), but who were not "cheerleading" for the companies that we visited (as might be the case with a brokerage analyst, for example);

- In recent years, TAM has, as a firm, greatly increased its presence in overseas investments, with a keen focus on Asia and Japan. If our now eight-year investment experience in Japan is any indication, odds are good that the years ahead will see TAM with an increasing interest in mainland companies;

- The world's center of gravity — politically and economically, at least — appears to be shifting more rapidly and inexorably east, centering on China and other parts of Asia. From this perspective, I felt it was important that TAM try to deepen its connection to the region, and strengthen its network of contacts, (hewing to the belief that sometimes "know who" is more important than "know how");

- Lastly, I hoped to lay some groundwork for future TAM visits in a place that obviously touches our lives every day.

"By meeting with representatives from a broad swath of businesses, academia and government, I felt that I could find clues about businesses Third Avenue Management ('TAM') owns or competes with, or might own, or about developments that might weigh on TAM's investment decisions, all while building a better investing perspective"

That I could be on the ground there during a period of politically charged jawboning about Yuan revaluation, controversial Sino-U.S. merger and acquisition activity (e.g., CNOOC's bid for Unocal, Haier's bid for Maytag and Lenovo's recent purchase of IBM's PC business), and resurgent Chinese nationalism only added more interesting dimensions to the experience. What did we discover?

INSPIRING ENTREPRENEURIALISM

Not surprising, I suppose, was a pervasive entrepreneurial spirit. For example, we visited with the management of Pacific King Shipping, a Shanghai-based cargo shipping company preparing for a listing on the Singapore Exchange. The CEO had mortgaged his home in order to support 30 employees and to buy his first ship in a distressed sale. Within six years, he and his team had grown the company from its humble origins to a fleet of 22 ships. In a similar vein, we met with the management team of Ensemble International ("Ensemble"), a Beijing-

² "Nothing Ventured Nothing Gained." From *Mr. China*, Tim Clissold, Harper Collins, 2004.



based IT outsourcing company that is 100% employee owned. (I was particularly intrigued by the outsourcing phenomenon, given India's apparent successes, and Microsoft's recent \$100 million investment in Chinese outsourcing initiatives.) Interestingly, college grads, who are paid roughly \$400 a month and who want to work for the company, have to make a deposit for three months of training. Talk about motivation and commitment! Educated in the U.S., management gave a very compelling presentation not only on the company's capabilities (IT staffing, application development, software testing and localization), but also with regard to the company's and industry's rapid growth; in this particular case the company's revenues and headcount were estimated to have grown nearly 16 fold between 2002 and 2005. As we toured Ensemble's offices, it was difficult to find anyone over the age of 25 or 30. Echoing the almost rabid entrepreneurialism at these companies, time and time again we encountered individuals, both on the street and in business meetings, who spoke with fierce determination about "being number one" or "being the best" regardless of their circumstances. Even when I was "taken" by a local pedi-cab entrepreneur in Tiananmen Square, I felt some odd sense of appreciation for his efforts.

COMPETITIVE THREAT, MORE THAN MEETS THE EYE?

Perhaps no where else was the *potential* for the growing, long-term competitive threat from China better illustrated than with our visit to Zhangjiang Hi-Tech Park in Pudong, home to two prominent Chinese healthcare companies, Bioexplorer and Microport Medical. Bioexplorer is a life sciences company that provides compound research, process development, and related services to biotechnology and pharmaceutical companies. Management, led by CEO Kewen Jin, believes that it has built the number two such company in China, with 270 chemists. The CEO's experience includes consulting for Eli Lilly in China and working for Wyeth, after studying molecular biology at

Rockefeller University and finance at Columbia. Interestingly, management knew well the U.S. Contract Research Organizations ("CROs") — two of which are held in the Small-Cap Value portfolio — not only in terms of their business models, but also in terms of share valuations and their latest closing prices. It appears that companies like Bioexplorer certainly have the potential to chase the CROs "up the value chain."

Founded in 1998, Microport designs, manufactures and markets minimally invasive, interventional medical devices, including angiographic catheters, coronary stents (including a drug-eluting stent product), and micro catheter devices to treat brain diseases. We met with Philip Wang, Vice President of Sales and Marketing, and Ruilin Zhao, Ph.D., Vice President of Business Development. Both had spent years in the United States, Wang with Eli Lilly, and Zhao with Johnson & Johnson. (Zhao received degrees from Harvard, MIT and Wharton. The company's CEO, Michael Zhang, had previously worked at Johnson & Johnson, Medtronic and Guidant.) It felt as if we were visiting an American company, complete with an IPO-ready, PowerPoint presentation. If, as I have heard from a few doctors, devices such as stents really are becoming a "commodity," then it seems likely that, in time, products developed outside of Europe or the United States would stand a reasonable chance of penetrating those markets (government approval processes notwithstanding). Possibly foreshadowing its aspirations in foreign markets, much of Microport's literature, it appeared, contained images of European or American families and patients.

China's ability to cultivate a strong biopharmaceutical industry would seem to be complemented by a relatively liberal Government stance in areas such as gene therapy, stem cell and primate research, as well as by a rich history in herbal therapies and Traditional Chinese Medicine.



CONSUMERISM IS ALIVE AND WELL

If you visit Shanghai, you will almost certainly find yourself shopping on Nanjing Road, possibly the Fifth Avenue or Rodeo Drive of the city. Treat yourself to a unique shopping experience by visiting 1266 Nanjing Road, home of Plaza 66, a Hang Lung Properties³ development. The ground floor of Plaza 66 is filled with what must be some of the most expensive shopping in the world, including stores from Fendi, Chanel, Versace, Louis Vuitton, Aramani, Dior and Hugo Boss. The prices, in many cases, were two to three times the prices for the same goods in New York. Fancy surroundings notwithstanding, I was delighted to hear that management described Hang Lung's culture as "stingy" when it comes to corporate expenses. The property manager, Roy Ho, who drives a 12 year old car with 300,000 kilometers on it, met us in the company's office, located in the *basement*. Chairman Ronnie Chan's practices seems to epitomize what Third Avenue looks for in its management teams. Visits to other shopping malls and conversations with people seemed to confirm that shopping habits have changed all over China, and particularly in Shanghai.

I left China convinced that terrific opportunities will exist in the years ahead, not only for companies held in TAM portfolios with operations there, but also for future investment in Chinese companies characterized by the drive and entrepreneurialism that I witnessed first hand. For those interested in learning more about China I can recommend two books — one offering a business perspective, the other a modern historical perspective: *Mr. China* (Tim Clissold, Harper Collins, 2004) and *Wild Swans, Three Daughters of China* (Jung Chang, Simon & Schuster, 1991).

My letter would be incomplete without a special thanks to our Summer Associate, Julia Yang. Her hard work, grace under pressure, and good humor paid off with a new idea for the Fund, and much fun for our whole team.

I look forward to writing you again when we publish our Annual Report dated October 31, 2005.

Sincerely,

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

³ For more about Hang Lung Properties, see Mike Winer's enclosed letter to Third Avenue Real Estate Value Fund shareholders.



Third Avenue Real Estate Value Fund



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

At July 31, 2005, the end of the Fund's third fiscal quarter of 2005, the unaudited net asset value attributable to the 100,763,440 shares outstanding of the Third Avenue Real Estate Value Fund (the "Fund") was \$30.26 per share. This compares with an unaudited net asset value of \$27.55 per share at April 30, 2005, and an unaudited net asset value of \$22.78 per share at July 31, 2004, adjusted for a subsequent distribution to shareholders. At September 1, 2005, the unaudited net asset value was \$29.88 per share.

QUARTERLY ACTIVITY*

As noted in last quarter's shareholder letter, effective July 1, 2005, the Fund is closed to new investors. Existing investors are still able to purchase shares in the Fund without restriction. During the third quarter of fiscal 2005, the Fund's outstanding shares increased to 100.8 million shares, from 88.7 million shares, an increase of 13.6%; net assets increased to \$3.05 billion, from \$2.44 billion, an increase of 25.0%; and net asset value per

share increased to \$30.26, from \$27.55, an increase of 9.8%. Net cash and short-term investments at quarter-end totaled 23.8% of net assets, compared to 23.7% at the end of the last fiscal quarter.

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

Principal Amount or Number of Shares	New Positions Acquired
\$6,270,514	FNC Realty Corp. 7% Convertible Notes due 7/27/08 ("FNC Notes")
511,900 shares	Columbia Equity Trust Inc. Common Stock ("Columbia Common")
4,028,393 shares	FNC Realty Corp. Common Stock ("FNC Common")
1,292,000 shares	Hang Lung Properties Ltd. Common Stock ("Hang Lung 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, 2005: Forest City Enterprises, Inc., 8.12%; The St. Joe Company, 8.08%; Catellus Development Corp., 6.63%; Brascan Corp., 4.91%; Vornado Realty Trust, 4.36%; ProLogis, 3.74%; PS Business Parks, Inc., 2.67%; Sears Holding Corp., 2.46%; Brookfield Properties Corp., 2.31%; and Jones Lang LaSalle Inc., 1.86%.



Number of Shares	New Positions Acquired (continued)	Number of Shares	Increases in Existing Positions (continued)
390,100 shares	JER Investors Trust Inc. Common Stock ("JER Common")	223,300 shares	Forest City Enterprises Inc. Class A Common Shares ("Forest City Common")
12,025,684 shares	Multiplex Group Common Stock ("Multiplex Common")	1,017,031 shares	Forest City Enterprises Inc. Restricted Class A Common Shares ("Forest City Restricted Common")
3,920,000 shares	Tai Cheung Holdings Ltd. Common Stock ("Tai Cheung Common")	548,000 shares	Henderson Land Development Co. Ltd. Common Stock ("Henderson Common")
	Increases in Existing Positions		
400,700 shares	Affordable Residential Communities Inc. Common Stock ("Affordable Common")	700,000 shares	Liberty International plc Common Stock ("Liberty Common")
1,007,500 shares	American Financial Realty Trust Common Stock ("American Financial Common")	16,460,000 shares	Midland Realty Holdings Ltd. Common Stock ("Midland Common")
213,100 shares	American Land Lease Inc. Common Stock ("American Land Common")	239,700 shares	PHH Corp. Common Stock ("PHH Common")
80,400 shares	Associated Estates Realty Inc. Common Stock ("Associated Common")	949,863 shares	Quintain Estates & Development plc Common Stock ("Quintain Common")
975,950 shares	Brascan Corporation Class A Common Stock ("Brascan Common")	1,490,872 shares	Unite Group plc Common Stock ("Unite Common")
			Positions Reduced
512,750 shares	British Land Company plc Common Stock ("British Land Common")	429,800 shares	CRT Properties Inc. Common Stock ("CRT Common")
490,800 shares	Capital Lease Funding Inc. Common Stock ("Capital Lease Common")	190,200 shares	CRT Properties Inc. 8.5% Preferred Stock ("CRT Preferred")
268,300 shares	CRIMI MAE, Inc. Common Stock ("CRIMI MAE Common")	505,500 shares	Wellsford Real Properties Inc. Common Stock ("Wellsford Common")
112,500 shares	Derwent Valley Holdings plc Common Stock ("Derwent Common")		
710,000 shares	Fairmont Hotels & Resorts Inc. Common Stock ("Fairmont Common")		



**Principal Amount or
Number of Shares**

Positions Eliminated

\$4,475,000	Frank's Nursery & Crafts, Inc. Prime + 1% Debtor-in-Possession Loan due 9/9/05 ("Frank's DIP Loan")
\$5,437,221	Frank's Nursery & Crafts, Inc. 10.15% Post-Petition Loan due 5/21/05 ("Frank's Post-Petition Loan")
1,480,263 warrants	Frank's Nursery & Crafts, Inc. \$1.14 Warrants ("Frank's Warrants")
139,843 shares	Frank's Nursery & Crafts, Inc. Common Stock ("Frank's Common")
521,200 shares	Prime Group Realty Trust Inc. Common Stock ("Prime Group Common")

DISCUSSION OF QUARTERLY ACTIVITY

During the fiscal quarter ended July 31, 2005, the Fund initiated positions in the common stocks of two U.S. REITs, two Hong Kong property development companies and an Australian property development/construction company. The Fund eliminated its position in the common stock of one REIT (as a result of M&A activity) and converted its various debt and equity holdings in a bankrupt retailer to new common stock and convertible notes in the reorganized real estate operating company. As usual, the Fund continued to increase its positions in many of its existing holdings as opportunities arose to acquire securities at reasonable prices.

The Fund acquired common stock of Columbia Equity Trust and JER Investors Trust in their respective initial public offerings. Since its inception in 1998, the Fund has participated in only a handful of initial public offerings, including American Financial Common,

Capital Lease Common, Crystal River Common, First Potomac Common, and Thomas Properties Common, each of which is a current holding. Over the past seven years, Fund management has had the opportunity to participate in dozens of initial public offerings and/or unregistered offerings. The vast majority of these offerings were unsuitable investments for the Fund based on a variety of reasons, including pricing, market capitalization, management experience, quality/location of assets and balance sheet considerations. The Fund will only participate in an initial public offering if Fund management believes the investment will meet our strict "safe and cheap*" criteria. Columbia Equity Trust invests in small-to-medium sized office buildings in the Greater Washington, D.C. area. The company has an experienced management team with a track record of creating value by acquiring under-managed properties that can be repositioned through intense management, leasing and targeted capital improvements. JER Investors Trust is a specialty finance company that originates and acquires real estate debt securities and loans. The company was formed by and is managed by an affiliate of J.E. Robert Company, which, for over 20 years, has been a leading investor, underwriter and special servicer of commercial mortgage-backed securities.

Hang Lung Properties is one of Hong Kong's largest property development and investment companies with a diversified portfolio of properties in Hong Kong and Mainland China. In Hong Kong, the company owns 6.2 million square feet of retail and office properties and 4.5 million square feet (4,755 units) of residential (for sale) apartments. In Mainland China (Shanghai), the company owns 1.6 million square feet of retail properties and 840,000 square feet of office properties. The company has an excellent track record of timing Hong Kong's historical market volatility (buying land when at

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



the bottom of the cycle), but takes a long-term approach to creating value (as evidenced by its entry into Mainland China in the early 1990's). The company is very conservatively financed (very low debt levels), and the common stock is trading at a substantial discount to Fund management's estimate of net asset value.

Tai Chung Holdings is a Hong Kong real estate operating company with a portfolio of 2.2 million square feet, consisting primarily of "Class B" office space in Hong Kong, Kowloon and the New Territories. The market for this type of office space has strengthened due to the widening gap between rental rates for "Class A" space and "Class B" space. The company also has a small presence (200 acres of land) in California and a minority interest in the Sheraton Hong Kong Hotel and Towers. The company is developing two luxury residential sites for detached housing in Hong Kong and Kowloon. Detached housing availability is almost non-existent in Hong Kong, making these two projects highly desirable. The company is also conservatively financed, and the common stock trades at a substantial discount to Fund management's estimate of net asset value.

Multiplex Common consists of stapled shares of Multiplex Limited and Multiplex Property Trust, trading as one security. Multiplex Property Trust owns 33 high-quality properties consisting of office, retail, industrial and parking lots in Australia and New Zealand. Multiplex Limited is involved in the construction and development business in Australia, the United Kingdom, United Arab Emirates and New Zealand. Construction projects include commercial and residential real estate (primarily high-rise structures), as well as entertainment and sports facilities (stadiums). The company recently announced it expects to incur losses of approximately AUD\$109 million on its largest construction project (the 90,000 seat Wembley National Stadium in the UK) due to delays and cost overruns. The total contract value on the project is approximately AUD\$1.16 billion. While

the expected loss on the Wembley contract and its near-term effect on profitability may be substantial, there does not appear to be a permanent impairment of capital. However, the public market reaction to the news was exaggerated, with the stock price falling from nearly AUD\$6.00 per share to under AUD\$3.00 per share. At this level, the public market was valuing Multiplex Group at close to the book value of Multiplex Property Trust's property portfolio and virtually no value for the construction and development business. The vast majority of the company's 55 current projects are expected to be profitable and it seems very likely that, based on the company's financial condition, it will be able to absorb the losses on Wembley.

The Frank's Nursery & Crafts story has entered a new chapter. After two Chapter 11 bankruptcy filings, the company has reemerged as a real estate operating company with 40 properties (former retail locations). The new company, FNC Realty Corp. ("FNC"), is privately held by affiliates of Kimco Realty Corp. (NYSE: KIM), the Fund, Third Avenue Value Fund and other institutional investors. In connection with its plan of reorganization, FNC raised \$97 million from its existing shareholders in the form of \$77 million FNC Notes (7% convertible notes due in July 2008) and \$20 million of FNC Common at \$0.75 per share. The FNC notes are convertible into FNC Common at any time at the option of the holder at a conversion price of \$0.75 per share. Existing shareholders were given the option of (a) investing their pro rata share of the \$97 million (accredited investors owning more than 100,000 shares), (b) receiving \$0.75 per share in cash, or (c) exchanging old shares for an equal amount of FNC Common. The Fund was a party to an Investor Agreement pursuant to which it committed to invest its pro rata share of the \$97 million and to backstop a percentage of the rights offering to shareholders (to the extent shareholders chose not to exercise their rights to invest their pro rata share).



The Fund invested approximately \$9.6 million in FNC Notes and FNC Common. Through the funding of the plan of reorganization, the Fund received payment in full on the Frank's DIP Loan and the Frank's Post Petition Loan. Pursuant to a development management agreement with FNC, Kimco will be responsible for overseeing the development, redevelopment, leasing, financing and sale of the properties as retail locations. While there is no guarantee that FNC will be successful in developing and selling the 40 properties, it is comforting to know that the company is finally out of the lawn and garden retail business and shareholders' returns will be in the hands of one of the best real estate operators in the country.

The Fund eliminated its holding in Prime Group Common as a result of the company finally being acquired in an all-cash transaction. The Fund's investment in Prime Group was a mistake from the beginning. The Fund first invested in Prime Group Common in 1999 based on our assessment that management was talented and conservative and that the stock was trading at a discount to net asset value. None of these assessments turned out to be accurate. The company's use of leverage and management's passion for high-risk developments ended up nearly sinking the company. Prime Group Common fell dramatically during 2002 after several missteps and subsequent reporting of dismal results. While we had lost faith in management and believed that their actions had actually destroyed shareholder value, we determined that the public market had overreacted, and despite all the warts, at \$4.00 to \$5.00 per share, Prime Group Common was extremely cheap (though not as safe as we would prefer). Instead of bailing out of the stock, we increased our position and lowered our overall cost to

\$5.37 per share. Prime Group was acquired in July 2005 for \$7.25 per share in cash. The Fund ended up making a decent return, but our initial analysis was flawed. Lesson learned.

EVEN GOOD MANAGMENTS DO BAD THINGS SOMETIMES

CRT Properties (formerly Koger Equity) announced in June that it has agreed to be acquired in an all-cash transaction for \$27.80 per share. The Fund has owned CRT Common for over five years, with an average cost basis of about \$20 per share. Fund management believes the buyout price is an excellent price and represents a significant premium to estimated net asset value. The Fund, combined with other Third Avenue funds and separate accounts, controlled more than 8% of CRT's outstanding common shares, and over the past five years had established a high level of confidence in the company's management team.

Based on this high level of confidence, the Fund acquired CRT 8.5% Preferred Stock in September 2003 at \$25.00 per share in the public offering. The rationale for purchasing a security with an 8.5% yield and little or no capital appreciation potential was that we already owned the common stock that we viewed as safe. We viewed the credit profile of CRT as much stronger than the 8.5% yield indicated, considering that comparable preferred stocks were trading below an 8% yield. Our view was sustained shortly after the public offering when CRT Preferred traded up as high as \$27.71 (current yield of 7.67%). The Fund is generally not a buyer of preferred stocks unless it already has an investment in the common stock, and then, only if it is our view that it is mispriced based on our evaluation of the company's credit profile.

“The Fund is generally not a buyer of preferred stocks unless it already has an investment in the common stock, and then, only if it is our view that it is mispriced based on our evaluation of the company's credit profile.”



While on the surface, preferred stocks appear to offer decent risk-adjusted returns, there are certain risks that should not be ignored. The following risks generally apply to most cumulative preferred stocks issued by REITs:

- Holders of preferred stock have no voting rights.
- Preferred stock has no fixed maturity date and may be outstanding indefinitely.
- The company may call the preferred stock at par any time after five years from the issue date. If purchased at a premium to par, there is the possibility of incurring a capital loss.
- Preferred stock has no covenants that may limit the company from incurring debt.
- If dividends on the preferred stock are in arrears for six or more quarters, holders of the preferred stock are entitled to vote for the election of two additional directors of the company. This provision sounds like it carries weight, but in reality, the two directors would likely be vastly outnumbered on the board.
- In the event the company is acquired or taken private, the preferred stock may remain outstanding. In this case, holders could end up owning a security for which there is no public market. Furthermore, the cushion of common stock (that was formerly publicly traded) could be dissipated and replaced with debt, thereby making the preferred stock much less credit worthy.

In the case of CRT Preferred, the last item noted above is precisely what the Fund was faced with. According to the company's public filings related to the merger, the preferred stock will be converted into preferred stock of the surviving company with identical terms. But the buyer has indicated that it may seek to deregister the preferred stock under the Securities Exchange Act of 1934 and delist the preferred shares from the New York Stock Exchange. Since the buyer is a private entity, it is

likely that the company will significantly increase its outstanding debt (it is not uncommon for private real estate owners to use significantly more leverage than public real estate companies). In fact, the public filings indicate that the buyer has secured a commitment for debt financing in an amount that exceeds CRT's total existing debt by \$177 million. For the buyer, assuming the obligation for the preferred stock effectively gives it a permanent, low-cost debt instrument. While 8.5% may have been the market rate CRT was required to pay based on its capital structure (debt-to-total market cap of about 40%), a highly-leveraged real estate company would probably be unable to secure similar financing. In other words, if the buyer were to acquire CRT with more debt than currently in place, it is unlikely it would be able to issue preferred stock at a comparable rate, especially if the security was a private instrument. While the Fund occasionally invests in restricted, illiquid or nonpublic securities, it would be unsuitable for the Fund to own 8.5% preferred shares in a highly-leveraged private company with an unknown management team. Not only would the Fund have an illiquid investment, but there is also a huge risk that the only exit might be accepting a low-ball offer from the company to buy preferred shares after conveniently missing several quarterly dividend payments (Fund management has seen this happen in the past, though not with a real estate company).

We are extremely disappointed that CRT's management and board chose to ignore the preferred shareholders when entering into the merger agreement. We believe it was highly questionable for management to agree to terms that leave the preferred shareholders with a security that, while it may have the same terms, certainly is much less valuable. As a common shareholder, we have no gripe. After all, the common shareholders are getting a better deal than they probably would have if the buyer had to figure out a way to pay off the preferred shareholders at a reasonable price. But that doesn't make



it right. Fund management made inquiries with company management about the treatment of preferred holders. Company management redirected our inquiries to the buyer. Our suggestion to the buyer that it should consider making a cash buyout offer to preferred holders of at least \$25 per share was rebuffed. Basically, we were stonewalled. As noted above, we had established a high level of confidence in this management team. That confidence no longer exists, and the Fund chose to sell its holdings in both CRT Common and CRT Preferred. CRT Common was sold at a slight discount to the \$27.80 merger price, and CRT Preferred was sold at a slight premium to our \$25.00 purchase price. We are pleased that the Fund made an excellent return on CRT Common and greater than an 8.5% annualized return on CRT Preferred; but that is little solace, knowing that a management team that we consistently held in high regard ended up doing what we believe to be the wrong thing.

I look forward to writing to you again when we publish our Annual Report for the fiscal year ending October 31, 2005.

Sincerely,

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



Third Avenue International Value Fund



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

Dear Fellow Shareholders:

At July 31, 2005, the end of the Fund's third fiscal quarter, the unaudited net asset value attributable to the 88,745,177 shares outstanding of the Third Avenue International Value Fund (the "Fund") was \$20.23 per share, compared with the Fund's unaudited net asset value at April 30, 2005 of \$19.18 per share, and an unaudited net asset value of \$15.49 per share at July 31, 2004, adjusted for a subsequent distribution. At September 1, 2005, the unaudited net asset value was \$20.78 per share.

QUARTERLY ACTIVITY*:

In the most recent quarter, the Fund established new positions in the common shares of four companies, and added to positions in the common shares of 23 companies.

Number of Shares

1,202,020 shares

5,398,000 shares

New Positions Acquired

Nippon Sheet Glass Co., Ltd. Common Stock ("NSG Common")

Overseas Union Enterprise Ltd. Common Stock ("OUE Common")

Number of Shares

291,306 shares

6,539,000 shares

290,100 shares

54,990,145 shares

1,530,000 shares

4,815,068 shares

1,180,025 shares

1,507,950 shares

New Positions Acquired (continued)

United International Enterprises Ltd. Common Stock ("UIE Common")

WBL Corp. Ltd. Common Stock ("WBL Common")

Increases in Existing Positions

Asatsu-DK, Inc. Common Stock ("Asatsu Common")

BIL International, Ltd. Common Stock ("BIL Common")

Boardroom Ltd. Common Stock ("Boardroom Common")

BRIT Insurance Holdings plc Common Stock ("BRIT Common")

Canfor Corporation Common Stock ("Canfor Common")

Chuan Hup Holdings Ltd. Common Stock ("CHH 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, 2005: Hutchison Whampoa, 2.92%; BIL International, Ltd., 2.92%; Subsea 7 Inc., 2.77%; Aker Kvaerner ASA, 2.35%; Toll NZ Ltd., 2.33%; BRIT Insurance Holdings PLC, 1.95%; Skandia Forsakrings, 1.86%; Telecom Corporation of New Zealand, 1.78%; Overseas Union Enterprise Ltd., 1.72%; and Canfor Corporation, 1.71%.



Number of Shares	Increases in Existing Positions (continued)
65,223 shares	Cie. Nationale a Portefeuille SA Common Stock ("CNP Common")
1,012,000 shares	Del Monte Pacific, Ltd. Common Stock ("Del Monte Common")
104,100 shares	Dundee Precious Metals Inc. Common Stock ("Dundee Common")
75,000 shares	Falconbridge Ltd. Common Stock ("Falconbridge Common")
401,500 shares	Fujitsu Business Systems, Ltd. Common Stock ("Fujitsu Business Systems Common")
60,100 shares	Futaba Corporation Common Stock ("Futaba Common")
211,100 shares	GEAC Computer Corporation Common Stock ("GEAC Common")
576,400 shares	Golar LNG Ltd. Common Stock ("Golar Common")
1,291,100 shares	Guoco Group Ltd. Common Stock ("Guoco Common")
1,305,000 shares	Hutchison Whampoa Ltd. Common Stock ("Hutchison Common")
1,858,000 shares	Liu Chong Hing Investment Ltd. Common Stock ("LCHI Common")
256,100 shares	Nichicon Corp. Common Stock ("Nichicon Common")
9,084,602 shares	Rubicon Ltd. Common Stock ("Rubicon Common")
350,000 shares	Skandia Forsakrings AB Common Stock ("Skandia Common")
1,854,626 shares	Telecom Corp. of New Zealand Common Stock ("Telecom Common")
36,635 shares	Toll NZ Ltd. Common Stock ("Toll NZ Common")
4,880,000 shares	Vitasoy International Holdings Ltd. Common Stock ("Vitasoy Common")

REVIEW OF QUARTERLY ACTIVITY

Nippon Sheet Glass ("NSG") is one of Japan's big three producers of float glass, with an approximately 30% market share. Float glass has historically had two major applications: construction and automobiles, with a newly emerging application in glass substrates for plasma display panels ("PDP").

Because of its weight and fragility, and the attendant high transportation costs, the geographical distance over which glass can be economically transported is fairly limited. Accordingly, the vast majority of NSG's production and that of its Japanese competitors is sold in Japan. The stagnation of the Japanese economy in the last decade and a half has had a negative effect on construction spending, depressing demand for flat glass and by implication on the operating performance of NSG and its peers. Manufacturers responded by shutting down production; with industry capacity declining by at least 15% since 1998, not counting the capacity diverted from traditional float glass products into PDP substrates. Today, capacity utilization in float glass production lines has shown signs of tightening again and manufacturers have managed to push through two rounds of price hikes since October 2004.

Favorable industry dynamics aside, NSG has other attractive attributes. It is well financed, and its balance sheet includes a portfolio of marketable securities anchored with a 20% stake in Pilkington, one of the world's largest float glass manufacturers. Our position in Nippon Sheet Glass Common was initiated around book value and at single digit multiples of operating earnings, adjusted for the investment holdings.

United International Enterprises ("UIE") is a Danish company with an unusual international pedigree. The company traces its roots to Danish entrepreneurs who bought land in then-British Malaya to launch a rubber plantation in 1906. A few more surrounding plantations were added later and the business was incorporated in Malaysia as United Plantations ("UP"). UIE was established



in 1982 when Danish owner-managers of UP were forced to sell a controlling stake to Malaysian nationals. In 1986, after ownership restrictions on non-Malaysians were lifted, UIE acquired land near UP and turned it into oil palm plantations. These were merged with UP's land holdings in 2003 in exchange for 20% of UP shares.

The other significant asset held by UIE is its 46% stake in Aarhus United A/S ("Aarhus"), a Danish producer and marketer of vegetable oils which in turn owns a further 23% of UP. The investment attractions of UIE are multiple: an exceptionally competent management, which has overseen the development of and manages some of the most productive palm oil plantations in Malaysia; the company's pristine balance sheet; and an opportunity to purchase these shares well below a conservatively assessed net asset value ("NAV").

Overseas Union Enterprise Ltd. ("OUE") is one of the investment holding companies associated with the Singapore-based United Overseas Bank Group, Ltd. ("UOB"). OUE's assets fall into two categories: holdings in listed equities and real estate holdings. The principal one among the former is a 3.2% shareholding in UOB, while the latter includes office real estate in prime Singapore locations, as well as hotels in Singapore, Kuala Lumpur, Shanghai and other locations in Malaysia and China. OUE has minimal indebtedness, trades below its NAV, and has highly separable (and divisible) assets. These attributes would be helpful in facilitating its restructuring and realizing value, given the regulatory requirement that UOB, the controlling shareholder, has to reduce its ownership stake to 10% of OUE by mid-2006.

WBL Corp. ("WBL") is a holding company listed in Singapore. The company's significant investments

include majority interests in two flexible printed circuit businesses, MFS Technology Ltd. ("MFS") and Multi-Fineline Electronix Inc. ("MFLX"), which are listed on the Singapore Stock Exchange and the NASDAQ, respectively. Both MFS and MFLX are conservatively capitalized and have been steadily reinvesting in production capacity. Neither company appears to be expensive as a stand-alone investment. WBL's other listed investment of a meaningful size is Wearnes International

"Simply stated, we are attempting to identify securities which are available in the public markets, at valuations significantly below their private market value, with a low probability of permanent capital loss over our long-term investment horizon."

Ltd. ("Wearnes"), which WBL is in the process of taking private at an attractive price. Wearnes is a Singapore-listed automotive retailing business operating in Singapore, Hong Kong, Thailand, Malaysia and Indonesia. In addition to its investments in listed companies, WBL has significant urban residential real estate investments in China and Malaysia in varying stages of development. The prices paid by the Fund for its investment in WBL offer a healthy discount to a conservative estimate of NAV.

MEETINGS WITH MANAGEMENT...DO THEY MATTER?

We are often asked about whether a meeting with company management is a prerequisite for the purchase of a stock, especially given the geographically diverse nature of the portfolio. Perhaps this question is best answered in the context of what we are trying to do. Simply stated, we are attempting to identify securities which are available in the public markets, at valuations significantly below their private market value, with a low probability of permanent capital loss over our long-term investment horizon.

While a careful understanding of the business is paramount in attaining a level of comfort that would allow us to make an investment, much of this is gained from a reading of the public documents, *inter alia* filings by the



potential investee company, its competitors, its suppliers or industry information, etc. Meetings with company management might be one of the elements of this information gathering process, usually complementary to the other sources. As a general rule, meetings are conducted with a specific purpose in mind, and focused upon learning about the business rather than listening to prepared presentations replete with management spin.

In our judgment, there are circumstances when such meetings might be invaluable and others when they are of limited value, relative to their cost. A sampling of such circumstances follows. The circumstances when meetings are helpful would include:

- **When the clarification of a business model is needed.** Much can be learned about a company's approach to its business from its historical reports, and indeed this is the basis of much of our work. However, sometimes a meeting with the management might be necessary to clarify certain nuances (left unaddressed in the reports), necessary to understand the dynamics of a business. For example, at the time we initiated a position in one of our holdings, Noble Group Ltd., it was dismissed by other investors as a proprietary trader in ferrous commodities, with limited prospects and a non-defensible business niche. A second examination of the balance sheet following a conversation with management indicated that not only was it not a trader, but rather an intermediary in these commodities with a far lower risk profile than was initially inferred from a reading of the company's reports. In fact, given the skill set required in providing the intermediation and supply logistics of commodities, Noble appeared to have a defensible niche in the businesses it operated.
- **When it assists in the reconciliation of the accounting numbers with economic reality.** There are often situations where companies employ industry-specific accounting principles, where the resulting numbers can obscure the underlying business performance or where local accounting practices bear little resemblance to those used elsewhere. Such a situation arose when we were examining insurance companies operating on the Lloyd's market, which (at

that time) reported their results using a three-year accounting cycle. The majority of insurance companies in the world base their reports upon a one-year accounting cycle, whether under U.S. Generally Accepted Accounting Principles or their overseas equivalents, and their results would not be comparable to numbers reported by their peers at Lloyd's. In this case, meetings with various members of the management, including chief financial officers and underwriters, helped bridge the gap in the understanding.

- **When it helps to better understand the economics (asset quality, cost structure, etc.) of one or more of the business' various units relative to its competition.** The desired degree of detail might be lost in the financial statements which often aggregate multiple, disparate businesses. In addition to meetings with the investee companies themselves, we find it useful to meet with competitors of the investee company in these various segments.
- **When it helps to better understand the quirks in local valuation.** Sometimes valuations in a region or an industry appear to be unusually attractive from a purchaser's perspective. For example, in late 2002 and early 2003, many companies in the oil service industry in Norway with exceptionally attractive assets were trading at unusually depressed valuations both in relation to their net asset values and in relation to their US peers with whom they competed for contracts around the world. We believed that given the mobility of the equipment, there was nothing systemic to warrant this significant undervaluation. Meetings with the companies themselves corroborated this hypothesis and pointed to this vast swathe of undervaluation being the result of the (then) greatly diminished short-term prospects for drilling in the North Sea.

Symmetrically, there are circumstances when such meetings might be of relatively limited value in relation to the incremental time and effort, which might have to be expended. These might include the following situations:

- **Where the investment decision is based upon the audited reports, and where the management's actions over time provide an adequate understanding of**



business strategy and appreciation of managerial acumen. Examples of this might be our investments in Guoco Group Ltd., Hutchison Whampoa Ltd., Pargesa SA and Compagnie Nationale a Portefeuille SA. In each of these companies, there is little ambiguity about the nature and composition of their respective asset bases, and the managerial capabilities of their owner-managers have been demonstrated with consistency over a number of years.

• **When a business has comparable peers, familiar to the investment team at Third Avenue Management (“TAM”).** The bottom-up investment research process, which focuses on the analyses of businesses one at a time as practiced at TAM, results in a broad variety of companies having been examined as potential investment candidates at one time or another. The inevitable by-product of this approach is the familiarity of the investment team with a large number of companies, their associated industries, with an understanding of their operating characteristics, which often renders management meetings with similar investee companies unnecessary.

Returning to the question posed at the head of this section about whether meetings with members of a company management necessarily precede our investment, the answer is a resounding “sometimes, when we consider them to be warranted”. How does this square with the “more meetings are better” view espoused by a number of our peers, who point to the thousands of meetings with company managements that their analysts have each year? One can only explain this divergence of approach in a few ways. Firstly, our focus on learning about the individual businesses at the outset, rather than on a periodic dissection of the variances in reported earnings, necessitates less management interaction. Secondly, the Fund has a portfolio which is relatively more concentrated, and historically has exhibited much lower turnover than most of our peers. This combination of portfolio characteristics requires us to know fewer companies, which for purely arithmetic reasons would necessitate fewer management meetings.

GEOGRAPHICAL DISTRIBUTION OF INVESTMENTS

At the end of July 2005, the geographical distribution of securities held by the Fund was as follows:

	%
Norway	9.98
Singapore	7.77
Hong Kong	6.33
Canada	5.56
New Zealand	5.37
Japan	4.64
United Kingdom	2.06
Sweden	2.00
Australia	1.55
France	1.51
Belgium	1.26
Denmark	0.82
Netherlands	0.57
Switzerland	0.30
Panama	0.25
Argentina	0.15
Equities — total	50.12
Foreign Government Debt	2.30
Cash & Other	47.58
Total	100.00

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

I look forward to writing to you again when we publish our Annual Report for the period ending October 31, 2005.

Sincerely,

Amit Wadhwaney
Portfolio Manager,
Third Avenue International Value Fund

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