



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

Fourth Quarter Commentary

October 31, 2006

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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 most recent month-end performance data or a copy of our 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 December 27, 2006.



Third Avenue Value Fund



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

Dear Fellow Shareholders:

At October 31, 2006, the end of the Fund's sixteenth fiscal year, the audited net asset value attributed to the 153,848,187 shares outstanding of the Third Avenue Value Fund ("TAVF", "Third Avenue", or the "Fund") was \$60.29 per share. This compares with an unaudited net asset value at July 31, 2006 of \$57.40 per share and an audited net asset value at October 31, 2005 of \$53.13, adjusted for a subsequent distribution. At December 19, 2006, the unaudited net asset value was \$62.08 per share.

QUARTERLY ACTIVITY*

Principal activities during the quarter were as follows:

| Number of Shares | New Position Acquired |
|-------------------------|--|
| 2,453,000 shares | Wharf Holdings, Ltd. Common Stock ("Wharf Common") |
| | Positions Increased |
| 1,098,000 shares | Cheung Kong Holdings Common Stock ("Cheung Kong Common") |

Number of Shares

4,312,801 shares

345,454 shares

50,053,000 shares

Principal Amount

\$11,564,027

\$92,249,625

\$164,094,000

Positions Increased (continued)

Nabors Industries Ltd. Common Stock ("Nabors Common")

RHJ International Common Stock ("RHJ Common")

Wheelock and Company Ltd. Common Stock ("Wheelock Common")

Debt Securities Retired

Safelite Bank Debt ("Safelite Bank Debt")

Sears Holding Company Escrow Notes ("Sears Notes")

USG Senior Debt ("USG Seniors")

Three of TAVF's equity investments during the quarter – Wharf Common, Cheung Kong Common, and Wheelock Common – are in extremely well-financed, Hong Kong-based companies, involved in actively-managed income producing real estate as well as other activities. Each issue was acquired at what seems to be a meaningful discount from Net Asset Value ("NAV"). For example, the Wheelock Common bought 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 October 31, 2006: Toyota Industries Corp., 6.76%; Cheung Kong Holdings, 6.06%; The St. Joe Company, 3.52%; Henderson Land Development Co., Ltd., 3.16%; Brookfield Asset Management, 3.15%; Nabors Industries, Ltd., 3.03%; Forest City Enterprises, 2.88%; Investor AB (A shares), 2.56%; Posco (ADR), 2.55%; and MBIA, Inc., 2.33%.



quarter was acquired at prices ranging from \$13.50 to \$14.00 per share in Hong Kong dollars. Wheelock management estimated that NAV was \$27.85 per share in Hong Kong dollars at September 30, 2006. TAVF management believes that the Wheelock management estimate of NAV is conservative.

RHJ Common is a Belgian domiciled company whose principal activities have been in Japanese Leveraged Buy-Outs (“LBOs”). The prices paid by the Fund seem to reflect at least a modest discount from NAV. Management at RHJ seems to be very, very competent. I have known the CEO for over 25 years.

Nabors is the world’s largest land driller for oil and gas, and is also extremely strongly capitalized. Nabors Common was acquired during the quarter at well under 10 times estimated 2006 earnings. In the normal course of events, i.e., no unpleasant surprises, 2007 earnings ought to be better than 2006 results. I serve as the Lead Director on the Nabors Industries Board of Directors and was a founder of the company. The Fund has held a position in Nabors Common for over eight years.

Three of the Fund’s distressed debt investments – Safelite Bank Debt, Sears Notes, and USG Seniors – matured. They were retired for cash at prices equal to the principal amount, plus interest, and, where applicable, interest on interest. The returns to the Fund from these investments were very satisfactory indeed. Counterbalancing this to some extent, is TAVF’s \$153,000,000 investment in Collins & Aikman Products Senior Notes (“C&A Seniors”). The C&A Seniors seem likely to be an almost total loss for TAVF. While over the years, the Fund’s track record in distress investing has been rewarding overall, as witnessed by the spectacular returns realized in the reorganizations of Covanta, Kmart, and Nabors Industries, Third Avenue’s strike-out ratio, as per the C&A Seniors, has been fairly high. This is likely to continue to be the case. Distress investing is a “high beta” business with a lot more investment risk than acquiring the common stocks of extremely well-financed

companies. Distress investing, warts and all, was analyzed in the Third Avenue Value Fund quarterly letter of October 31, 2002, where there appeared a piece, “An Introduction To Distress Investing”.

SECURITIES REGULATION, DISCLOSURE AND THIRD AVENUE

The principal Federal laws covering securities regulation are the Securities Act of 1933, as amended (“the 1933 Act”) and the Securities and Exchange Act of 1934, as amended (“the 1934 Act”).

The 1933 Act and the 1934 Act have three principal regulatory purposes:

1. Insure the maintenance of free, fair and orderly trading markets.
2. Provide disclosure to Outside, Passive, Minority Investors (“OPMIs”).
3. Provide oversight of Managements, Directors, Insiders, Control Persons and Professionals.

Disclosure has two principal purposes:

1. Aid and abet the maintenance of free, fair and orderly markets. This function is directed exclusively toward meeting the perceived needs of short-term traders who believe they are vitally affected by near-term fluctuations in market prices.
2. Provide information to long-term buy-and-hold investors such as TAVF.

For short-term traders, what the numbers *are*, especially earnings per share (“EPS”) as reported become of paramount importance. A consequence of catering to short-term traders has been that Generally Accepted Accounting Principles (“GAAP”) has come to be dominated by rigid rules, rather than principles. As a result, GAAP has been made as complicated as the Internal Revenue Code. Such complications are unnecessary for GAAP, whose principal purpose has to be to give OPMIs objective benchmarks, not “truth” or “economic reality”, something rigid rules can never do.



The Internal Revenue Code, in contrast, has to be complicated because its purpose is to calculate one number – a taxpayer’s periodic tax bill.

For buy-and-hold investors (and control persons), the GAAP factor of paramount importance is what the numbers *mean*, rather than what the numbers are. Here there is rarely a Primacy of the Income Account, i.e., emphasis on EPS. Rather, there is a balanced approach where each element of the accounting cycle – balance sheet, income account, cash reconciliation – is weighted by the user of the financial information. In some cases, there might be a Primacy of the Income Account (e.g., strict going concerns); in some cases there might be a Primacy of NAV (e.g., investment companies); while in most cases there is a Primacy of a Balanced Approach (e.g., everything in the accounting cycle becomes useful for an analysis).

In the current regulatory scheme, there seems to be much too much emphasis on controlling disclosure to meet the perceived needs of short-run traders. There is no question that capital markets are most efficient where the trading markets are free, fair and orderly. However, fulfilling the stated information needs of short-run speculators really does not contribute to the maintenance of free, fair and orderly markets. Rather, the best protection for all participants in OPMI markets is self protection. Increasingly, disclosure ought to recognize the needs or desires of buy-and-hold investors who are reasonably diligent, reasonably intelligent and reasonably well trained. The best hypothetical standard for disclosure, to my mind, ought to be what is required for making sound judgments by those who are long-term unsecured creditors, holding privately-placed debt instruments; and not the average investor who thinks he, she, or it, are vitally affected by day-to-day, or hour-to-hour, price fluctuations. This is because, at bottom, the average investor cannot be protected unless he, or she, or it,

protect themselves. The present emphasis on serving short-run interests seems to be ruining U.S. capital markets for publicly-traded equities.

It ought to be noted, however, that it is hard for TAVF management to complain about the disclosure system. Over the last 40 years, the Securities and Exchange Commission (“SEC”) has done a magnificent job in improving disclosure for buy-and-hold investors such as TAVF. Disclosure has never been better for the Fund.

“For buy-and-hold investors (and control persons), the GAAP factor of paramount importance is what the numbers *mean*, rather than what the numbers are.”

One of TAVF’s best tools for appraising management is examining the GAAP choices they opt to make when given a choice, e.g., in Exploration and Producing oil companies (“E&P”), compare the choice between successful efforts accounting and full cost accounting. E&P managements’ choices tell TAVF management a lot about how conservative or

promotional an E&P management might be. This is an argument against rules and for principles.

The accounting principles that ought to govern GAAP should, in my opinion, encompass the following:

1. Financial statements are prepared under the assumption that the users are well trained, diligent and intelligent.
2. The Company is a stand-alone, never to be substantively consolidated with stockholders, management, or creditors.
3. There exists a modifying convention of conservatism.
4. There is no Primacy of the Income Account. Rather, emphasis has to be placed on a balanced approach without any preconceived notions that the income account is more important than the balance sheet, the cash reconciliation, or footnote disclosures – and vice versa.



5. The goal of GAAP, with the possible exception of mark-to-market investment companies, has to be to provide the user of financial statements with objective benchmarks, not truth. The user's task is to convert objective benchmarks into the user's version of truth.
6. The financial statements, including footnotes, should strive to disclose all material facts that might have negative connotations.

There are certain areas where market participants ought to protect themselves, provided they are given, through regulation, the tools with which to protect themselves. Disclosure is one such area. There are other areas, admittedly, where the only meaningful protection for individuals resides in regulation providing strong, stringent, rules. Such an area, for example, is in the regulation of prescription drugs to assure safety and efficacy. Individuals are in no position to self protect themselves when it comes to prescription medicines.

In the investing arena, there are federal laws which provide a substantial amount of substantive protection to market participants unwilling, or unable, to self-protect. These laws are embodied in the Investment Advisers Act of 1940, as amended; and, more particularly, the Investment Company Act of 1940, as amended. TAVF is regulated under the Investment Company Act of 1940, as amended, as are all U.S.-based mutual funds.

Third Avenue is harmed by non-productive regulation as embodied both in GAAP, as currently constituted, and the Sarbanes-Oxley Act of 2002 ("SOX"). Also, frivolous stockholder lawsuits are a problem, especially the class of lawsuits labeled "fraud on the market". As things exist now, no foreign issuer is likely to access U.S. capital markets unless they absolutely need U.S. capital. TAVF invests heavily in foreign securities. Further, many small companies, now publicly traded, are thinking about "going dark", i.e., no longer being subject to regulation by the SEC. Needless to say this environment is not conducive to the well being of the U.S. economy, which

for many years, at least since 1933, has benefited from having the deepest, most efficient, best informed capital markets ever known to mankind.

In retaining strong, efficient capital markets, it remains important that trading markets continue to be free, fair and orderly. It is hard for me, however, to see how requiring traders to self protect after being given adequate disclosure detracts from efficient markets. If anything, the emphasis on the phony economics embedded in relying on short-run EPS as reported introduces material market inefficiencies. The goal of Federal securities regulation is Investor Protection. I submit that most useful Investor Protection lies in self protection, and not in precise numbers derived from rigid rules, especially quarterly EPS as reported.

PRIVATE EQUITY LIMITED PARTNERSHIPS AND THIRD AVENUE

On November 1, 2006, I briefly addressed the Third Avenue Management Value Conference in New York. In those remarks, I compared what TAVF is doing with the bulk of its equity investments to Private Equity Limited Partnerships. My comments, modestly edited, were as follows:

Private Equity Limited Partnerships, such as KKR, Blackstone, Thomas Lee and Carlyle Group are all the rage today. These are entities which acquire control, or elements of control, over a variety of properties or corporations.

A huge amount of Third Avenue's portfolios are in the common stocks of companies performing the same function as Private Equity LPs. These Third Avenue common stock investments include the following: Brookfield Asset Management, Capital Southwest, Cheung Kong Holdings, Forest City Enterprises, Guoco Group, Henderson Land Development, Hutchison Whampoa, Investor AB, Jardine Matheson, RHJ International, Wharf Holdings and Wheelock & Co.

Permit me to compare the differences between Third Avenue's private equity common stock investments with those of the typical Private Equity LP.



1. Third Avenue buys into its private equity investments at prices that represent very substantial discounts from readily ascertainable NAVs. Private Equity LPs obtain control by paying premiums over OPMI market prices. Private Equity LPs most often negotiate deals. Third Avenue pays prices in the open market which are way, way below prices that are paid typically in negotiated deals. However, frequently in the case of Management Buy Outs (“MBOs”), deals are not negotiated at arms-length because management becomes part of the buying group. Private equity buyers often can get some very attractive deals in MBOs.
2. The various Third Avenue investments are in companies that are extremely well financed. Controlled entities of Private Equity LPs tend to be leveraged to the hilt.
3. The Third Avenue Investments tend to be managed primarily for long-term growth. Private Equity LP controlled entities tend to be managed with the objective of extracting from the operating entities as much cash as possible as soon as possible.
4. Limited Partners (“LPs”) of Private Equity LP tend to pay much higher promotes to General Partners (“GPs”) than do Fund shareholders. The Third Avenue expense ratio is 1.1% of Assets Under Management (“AUM”). Typical LP fees are 2% of AUM plus 20% of gains after, say, a 6% bogey.
5. There is no meaningful lock-up for Third Avenue Funds. Any shareholder can redeem daily, subject only to a small redemption charge for short-run holders. The typical LP can’t redeem any investment for at least a year.
6. In terms of corporate governance, Third Avenue shareholders have manifestly more rights and protections than do LPs.
7. Lead Investors in Private Equity LPs get to do “due diligence” on the LP and also negotiate many terms of the arrangements between the GPs and the LPs. Third Avenue Funds relies on the public record, and also interviews with managements and others. Third Avenue owns common stocks. It does not negotiate terms.

My family and I have invested a substantial part of our net worths in Third Avenue. We have almost no investments in Private Equity LPs.

I like it that way.

SHAREHOLDER DISTRIBUTION

On December 20, 2006, a distribution of approximately \$3.34 per share was made to stockholders of record on December 19, 2006. Of this amount, approximately \$3.24 represents ordinary income; approximately \$0.01 represents short-term capital gain which would be treated for income tax purposes as ordinary income; and approximately \$0.09 represents long-term capital gain. A portion of the amount representing ordinary income (including short-term capital gain) may be treated as qualified dividend income for purposes of the 15% maximum tax rate on individuals; however, the bulk of the ordinary income was derived from interest payments and from unrealized profits attributable to the Fund’s investments in Passive Foreign Investment Companies (“PFICs”). Such ordinary income, i.e., interest income and PFIC income, will not be treated as qualified dividend income for purposes of the 15% maximum tax rate on individuals. The information provided in this letter does not represent final tax information and, therefore, should not be used in completing your income tax returns. Information necessary to complete your income tax returns for the calendar year ending December 31, 2006, will be issued by the Fund in the early part of 2007. Shareholders, as always, have the option of receiving their distribution either in cash or newly-issued shares of the Fund.



PORTFOLIO MANAGEMENT

I am now 82 years old. I hope to keep working as long as I remain *compos mentis*. However, it does become important that a successor be ready to take my place. This is especially important to me and my family because we are such large shareholders of the Fund. It is a pleasure to inform you that Ian Lapey is my designated successor as portfolio manager of the Fund. He has been with Third Avenue Management for almost six years. When Ian succeeds me as portfolio manager of the Fund, I think he will do “safe and cheap*” at least as well as I do, and maybe better.

I will write to you again when the report for the period to end January 31, 2007 is published. Best wishes for a Happy and Prosperous New Year.

Sincerely yours,

Martin J. Whitman
Chairman of the Board

* “Safe” means 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.



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 October 31, 2006, the end of the Fund's fiscal year, the audited net asset value attributable to the 90,805,077 common shares outstanding of the Third Avenue Small-Cap Value Fund ("Small-Cap Value" or the "Fund") was \$26.54 per share, compared with the Fund's unaudited net asset value at July 31, 2006 of \$25.25 per share, and an audited net asset value of \$23.60 per share at October 31, 2005, adjusted for a subsequent distribution. At December 19, 2006, the unaudited net asset value was \$27.30 per share.

QUARTERLY ACTIVITY*

During the quarter, Small-Cap Value established three new positions, added to 18 of its existing positions, eliminated five positions and reduced its holdings in four companies. At October 31, 2006, Small-Cap Value held positions in 84 common stocks, the top 10 positions of which accounted for approximately 21.72% of the Fund's net assets.

Number of Shares

1,012,300 shares

525,804 shares

12,107,879 shares

50,000 shares

123,500 shares

515,000 shares

870,601 shares

70,812 shares

13,248 shares

54,406 shares

44,117 shares

39,641 shares

12,282 shares

166,949 shares

New Positions Acquired

Andrew Corp. Common Stock
("Andrew Common")

Andrx Corp. Common Stock
("Andrx Common")

Catalyst Paper Corp. Common Stock
("Catalyst Common")

Increases in Existing Positions

American Power Conversion Corp.
Common Stock ("APC Common")

The Buckle, Inc. Common Stock
("Buckle Common")

Canfor Corp. Common Stock
("Canfor Common")

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

Deltic Timber Corp. Common Stock
("Deltic Common")

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

Herley Industries, Inc. Common Stock
("Herley Common")

JAKKS Pacific, Inc. Common Stock
("JAKKS Common")

Journal Communications Common
Stock ("Journal Common")

National Western Life Insurance Co.
Common Stock ("National Common")

Pogo Producing Co. Common Stock
("Pogo Common")

* Portfolio holdings are subject to change without notice. The following is a list of Third Avenue Small-Cap Value Fund's 10 largest issuers, and the percentage of the total net assets each represented, as of October 31, 2006: Pogo Producing Co., 2.72%; Brookfield Asset Management, 2.59%; Cimarex Energy Co., 2.57%; Whiting Petroleum Co., 2.24%; The St. Joe Company, 2.18%; Bandag, Inc., 2.05%; CommScope, Inc., 1.88%; K-Swiss, Inc., 1.85%; Comstock Resources, Inc., 1.83%; St. Mary Land and Exploration Co., 1.80%.



| Number of Shares | Increases in Existing Positions (continued) |
|------------------|--|
| 1,567 shares | Rockville Financial, Inc., Corporation Common Stock ("Rockville Common") |
| 50,000 shares | Sabre Holdings, Inc. Common Stock ("Sabre Common") |
| 146,727 shares | Stanley Furniture Co., Inc. Common Stock ("Stanley Common") |
| 163,636 shares | Sycamore Networks Inc. Common Stock ("Sycamore Common") |
| 200,000 shares | Tellabs, Inc. Common Stock ("Tellabs Common") |
| 25,000 shares | Tidewater, Inc. Common Stock ("Tidewater Common") |
| 35,000 shares | Vail Resorts, Inc. Common Stock ("Vail Common") |
| | Positions Reduced |
| 219,300 shares | American Axle & Manufacturing Common Stock ("Axle Common") |
| 321,128 shares | PAREXEL International Corp. Common Stock ("PAREXEL Common") |
| 35,000 shares | Sears Holding Corp. Common Stock ("Sears Common") |
| 429,900 shares | Superior Industries International Common Stock ("Superior Common") |
| | Positions Eliminated |
| 1,012,300 shares | Andrew Corp. Common Stock ("Andrew Common") |
| 1,656,062 shares | Credence Systems, Inc. Common Stock ("Credence Common") |
| 410,700 shares | Lindsay Manufacturing Co. Common Stock ("Lindsay Common") |
| 1,031,900 shares | Maverick Tube Corp. Common Stock ("Maverick Common") |
| 404,644 shares | Origen Financial, Inc. Common Stock ("Origen Common") |

QUARTERLY ACTIVITY

With one or two exceptions, it was an exceptionally dull quarter. Straying modestly from its "Safe and Cheap*" mantra, Fund management made one significant new investment, and acquired small positions in two other new holdings, both of which have been sold. More than anything else, this type of activity evidences our willingness to act opportunistically when true bargains remain scarce. We did turn over a lot of rocks this quarter, however, and added to our growing inventory of prospective ideas. The quarter also was marked by an abnormally high level of dispositions, in one case the favorable outcome of a large premium takeover of the Fund's largest holding.

The Fund's small position in Andrx Corporation, a maker of generic drugs, originated as a cash merger arbitrage opportunity, one in which our research had originally led us to the acquirer, Watson Pharmaceuticals (NYSE : WPI). As such, the Fund's investment in Andrx Common substituted for a small portion of the Fund's ample cash reserves. Doubts about the success or timing of the closing of the merger enabled Fund management to acquire shares during a two-month window prior to deal close, a position that resulted in a 17.3% Internal Rate of Return ("IRR"). Had Watson's proposed acquisition of Andrx failed or otherwise been terminated, Fund management would likely have held onto its Andrx shares, believing them to meet our "Safe and Cheap*" criteria. We will not engage in these types of arbitrage investments without first being satisfied that the acquiree falls within our "Safe and Cheap*" criteria should an unfavorable outcome emerge (e.g., the proposed transaction is altered or terminated.)

The Fund also initiated a modest position in Andrew Corporation common stock ("Andrew Common"), a

* "Safe" means 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.



position that was sold prior to quarter's end. Andrew Corporation, a maker of wireless telecommunications equipment, was the subject of two competing corporate bids: one, a cash offer from CommScope, Inc. (a Fund holding) that was rejected; and the other, a share exchange offer from ADC Telecommunications, a bid that was later terminated. As holders of CommScope common stock, Fund Management diligenced Andrew Corporation out of necessity. Subsequent to and partly as a result of these bids, Andrew Common traded well below the values of both bids, (at the time it was made, for example, CommScope's bid represented a 20% premium to ADC's bid). Comfortable that Andrew Common was "in play" and trading well below likely takeover values, or values that might be achieved were Andrew to continue as an independent going concern, we built a position with the belief that such values might be realized within a one-to-two year time frame. We were wrong. Those values were quickly realized as Andrew Common recovered to levels that were in-line with or above the implied takeover values. As a result, we sold our shares, producing a triple digit IRR.

Despite realizing attractive returns, this sort of "quick hit" activity is generally unsatisfying, and distinctly out of character. Unsatisfactorily, we did not have adequate time to build positions meaningful enough to really add significantly to the Fund's net asset value.

Fund Management built a more meaningful and, it is hoped, long-term position in the shares of Catalyst Paper Corporation ("Catalyst Common"). Catalyst Common became the subject of a partial tender offer led by a special purpose entity formed at the request of Third Avenue Management, a tender offer initially resisted by Catalyst's management and Board. After the successful completion of the tender offer, Third Avenue International Value Fund ("TAVIX")¹, the Small-Cap Value Fund, and various other clients of Third Avenue Management own a combined 38% of that company's shares outstanding.

Catalyst, a leading Canadian producer of pulp and printing papers, like virtually all Canadian forest products companies, has struggled mightily against the surging Canadian dollar, a currency that stands at multi-decade highs against the U.S. dollar. Against this backdrop, some of the company's end markets, including newsprint, continue to show signs of secular decline; while the cost of certain inputs, specifically energy and fiber, have soared. The net result for Catalyst has been a string of annual operating losses. However, shares were acquired at a fraction of the replacement cost of the company's net assets, the industry appears set for a more rapid pace of consolidation and rationalization, and, despite the losses, the company's cash flows generally have been adequate to support necessary capital expenditures. Not insignificantly, Western Canadian producers like Catalyst boast significant cost advantages over their Eastern counterparts, and it appears that, operationally, an abundance of "low-hanging fruit" may provide an opportunity to greatly enhance the company's financial results.

Fund Management made dispositions of high cost basis shares in American Axle Common, Superior Common and Origen Common to realize tax losses. Credence Common, originally recommended some years ago by yours truly, turned out to be a terrible investment, one in which the Fund realized a loss on its investment exceeding 50%. In contrast, the Fund realized a large gain and an excellent return on its holding of Maverick Common, the subject of a cash bid by Tenaris (NYSE: TS), a competing maker of steel pipe and casing used in the oil and gas industry, at a 37% premium to market.² The Maverick investment produced an IRR of nearly 97%.

REPORT CARD

The Fund's performance, particularly in recent periods, has lagged that of the major small capitalization company indices, as well as that of a portion of its peer group. Our

¹ TAVIX initiated its Catalyst position in the first fiscal quarter 2006 (January 2006), at which time Fund Management also briefly wrote about the thesis for its investment.

² The 37% refers to Tenaris' bid relative to Maverick Common's prior day closing price.



“Safe and Cheap*” discipline has meant that we have not owned many of the more speculative or financially leveraged issuers that have contributed to the heady bull market in small company equities over the past five years, nor have we owned some of the best performing sectors like Real Estate Investment Trusts. For long stretches, particularly during the most recent few years, large inflows of cash into the Fund outpaced our ability to find suitable new ideas and deploy the cash. More encouraging, however, is that the Fund’s absolute, *after-tax* returns and its performance relative to inflation – the two metrics most heavily weighted by Fund Management – remain near our long-term goals of mid-teens returns and remain reasonable, especially, in our view, within the context of the investment risks implicit in the Fund’s holdings. The Fund’s performance during 2006 was held back by issues like Credence Common, Leapfrog Enterprises common stock, shares of auto suppliers like American Axle and Superior Industries, as well as by some of the Fund’s energy-related issues, which currently comprise roughly 12% of the Fund’s assets. Positive performance was derived from appreciation in a broad swath of issuers including Maverick Tube, CommScope, Forest City, E-L Financial and Brookfield, and a host of others, with no single sector really making outsized contributions.

As I remind myself, our clients and shareholders, in good and bad times, performance – especially short-term performance – ought not to get 100% weighting in measuring the results of a particular manager or fund. I encourage folks to think about and weigh accordingly the “3 P’s” that include: Performance, Portfolio and People. From a portfolio perspective, the Fund: i) closed its doors to new investors earlier this year, resulting in a 4% decline

in the number of Fund shares outstanding; ii) continues to sit with an abundant supply of “dry powder” that can and will be readily deployed as investment opportunities arise; and iii) holds a number of issues, like Catalyst Common, that represent the seeds of potentially excellent future harvests. In the people category, Third Avenue continues to attract high quality talent, and is blessed by remarkably low turnover. Charlie Page, who joined our team this summer, has been focused on identifying new small-cap ideas. While still early in his tenure, he clearly understands and embraces Third Avenue’s deep value investment philosophy, as does our entire team. On balance, I believe the Fund, as measured by the “3 P’s”, remains in fine shape.

“In our view, a good management team and, by extension, its board, takes to heart the needs and desires of the outside, passive shareholders like Third Avenue.”

CORPORATE GOVERNANCE: A LIGHT IN THE TUNNEL?

“It’s no longer just show up and drink the coffee.”

— Board Director Credo, 2006

A critical piece of Third Avenue’s “Safe and Cheap*” investment philosophy – and the place where we make many of our mistakes – relates to company managements.

In our view, a good management team and, by extension, its board, takes to heart the needs and desires of the outside, passive shareholders like Third Avenue. Times have changed for public company board members, and they may have changed for institutional shareholders as well. As Claudia Deutsch observed recently in *The New York Times*³:

“The corporate seat of power not only is hotter but is increasingly equipped with an ejector button that directors are quicker than ever to press. In fact, turnover in the corner office is heading toward a record high this year.”

* “Safe” means 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.

³ “New CEOs want Pay to Play”, *The New York Times*, November 26, 2006, Claudia H. Deutsch.



A well-spring of shareholder activism has shined an unflattering light onto the practices of America's overreaching, disengaged or negligent corporate boards, and recent scandals — like the hundreds of purported cases of options back-dating scandals — have only added fuel to the fire. A number of important developments that might embolden shareholder activists or that might lend vigor to their campaigns bear watching.

In the forefront will be a recommendation by the Securities and Exchange Commission (“SEC”) to amend Rule 14a-8 under the Securities Exchange Act of 1934 concerning director nominations by shareholders. The SEC proposal must address the issues raised by a decision of the U.S. Court of Appeals for the Second Circuit handed down on September 5, 2006, which disagreed with the SEC's longstanding interpretation of Rule 14a-8. In *AFSCME v. American International Group, Inc.* (the “AIG Case”)⁴, the Second Circuit examined whether a shareholder proposal requiring a company to include certain shareholder-nominated candidates for the board on the corporate ballot can be excluded from the corporate proxy materials. The Second Circuit ruled that a “shareholder proposal that seeks to amend the corporate bylaws to establish a procedure by which shareholder-nominated candidates may be included on the corporate ballot does not relate to an election within the meaning of the Rule and therefore cannot be excluded from corporate proxy materials under that Regulation.” The outcome of the SEC's session, originally scheduled for October 18, 2006 but delayed until December 13, 2006, ought to greatly clarify the law and better enable shareholders to hold boards accountable.

In a related development, the New York Stock Exchange (“NYSE”), in April 2005, created a Proxy Working Group

(“PWG”) to review NYSE rules regulating the proxy voting process. Specifically, PWG considered Rule 452, “Giving Proxies by Member Organizations,” allowing brokers to vote on certain “routine” proposals if the beneficial owner of the stock has not provided specific voting instructions to the broker at least 10 days before a scheduled meeting (also known as the “10 Day Rule”). While Rule 452 identifies 18 items as “not routine,” among the matters still considered routine, and thus eligible for broker voting, were uncontested elections of directors.⁵ On October 24, 2006, the NYSE moved to eliminate broker discretionary voting on the election of directors by proposing to amend Rule 452. Subject to SEC approval, the amendment will become effective for all shareholder meetings held on, or after, January 1, 2008.

Lastly, it appears as if the various activist campaigns prompting U.S. companies to adopt majority voting standards in director elections have gained meaningful traction⁶. More than 150 majority vote proposals were filed by stockholders in the 2006 proxy season and a number of corporations have taken actions to replace or modify the plurality system.⁷ Leading companies such as Intel, Dell Computer, United Technologies and Pepsico have adopted the “majority-plus” standard, a model first adopted by Intel. Shareholders would seem to be getting help at the federal regulatory level as well. For example, the SEC has rejected no-action requests from companies like Hewlett-Packard that sought to exclude shareholder proposals requesting the addition of the majority vote standard to their corporate documents. Notably, both the Model Business Corporation Act and the Delaware General Corporation Law were amended in 2006 to facilitate majority voting.

⁴ AFSCME is the American Federation of State, County & Municipal Employees, employees pension.

⁵ Report and Recommendations of the Proxy Working Group to the New York Stock Exchange, June 5, 2006.

⁶ Majority voting differs from the historically predominant plurality system in which a director who receives the most votes gets elected to the board, regardless of the number of “no” or “withheld” votes. In an uncontested election, a single vote “for” a director theoretically would be sufficient to secure his or her victory. As most elections are uncontested, a board nominee would have a better chance of getting hit by lightning than of losing the election.

⁷ Jones Day Commentary, October 2006.



That the SEC failed in 2003 to pass a proxy access proposal, and that these other related issues continue to stir such vigorous debate suggests that significant resistance to change remains. But investors, including the Fund, ought to be encouraged that sensibly crafted new rules might improve board accountability, and might demonstrate to other markets that U.S. capitalism remains serious about making shareholder voices heard. As in the case of Catalyst, when there is an opportunity to more closely align management actions and shareholder interests, it is possible that Third Avenue will assert itself more vigorously than simply voting with its feet.

SHAREHOLDER DISTRIBUTION

On December 20, 2006, a distribution of approximately \$1.42 per share was made to shareholders of record as of December 19, 2006. Of this amount, approximately \$0.43 represents ordinary income; approximately \$0.12 represents short-term capital gain, which would be taxed as ordinary income; and approximately \$0.87 represents long-term capital gain. A portion of the amount representing ordinary income (including short-term capital gain) may be treated as qualified dividend income for purposes of the 15% maximum tax rate on individuals. The information provided in this letter does not represent final tax information and, therefore, should not be used in completing your income tax returns. Information necessary to complete your income tax returns for the calendar year ending December 31, 2006 will be issued by the Fund in the early part of 2007. Shareholders, as always, have the option of receiving distributions either in cash or in newly-issued shares of the Fund.

I look forward to writing you again in the New Year when we publish our First Quarter report dated January 31, 2007. Thank you for your continued support. May you and your families enjoy a healthy and prosperous New Year.

Sincerely,

Curtis R. Jensen
Co-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:

I am pleased to provide you with Third Avenue Real Estate Value Fund's (the "Fund") report for the fiscal year ended October 31, 2006. This report marks the Fund's eighth full year of operation since its inception on September 17, 1998. At October 31, 2006, the audited net asset value attributable to the 86,401,434 shares outstanding was \$36.34 per share. This compares with the Fund's unaudited net asset value of \$32.72 per share at July 31, 2006, and an audited net asset value, adjusted for a subsequent distribution to shareholders, of \$27.94 per share at October 31, 2005. At December 19, 2006, the unaudited net asset value was \$37.62 per share.

QUARTERLY ACTIVITY*

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

| Number of Shares | Increases in Existing Positions |
|------------------|---|
| 80,268 shares | Vail Resorts, Inc. Common Stock ("Vail Common") |

Number of Shares

| |
|-------------------|
| 7,307,800 shares |
| 6,947,000 shares |
| 450,700 shares |
| 500,000 shares |
| 850,000 shares |
| 500,000 shares |
| 100,000 shares |
| 12,025,684 shares |
| 537,700 shares |

Increases in Existing Positions

| |
|--|
| Wharf Holdings Ltd. Common Stock ("Wharf Common") |
| Wheelock and Company Ltd. Common Stock ("Wheelock Common") |

Decreases in Existing Positions

| |
|--|
| Brookfield Properties Corp. Common Stock ("Brookfield Common") |
| ProLogis Common Stock ("ProLogis Common") |
| PS Business Parks, Inc. Common Stock ("PS Common") |
| Trammell Crow Company Common Stock ("Trammell Common") |
| Vornado Realty Trust Common Stock ("Vornado Common") |

Positions Eliminated

| |
|---|
| Multiplex Group Common Stock ("Multiplex Common") |
| PHH Corp. Common Stock ("PHH 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 October 31, 2006: Forest City Enterprises, Inc., 12.62%; ProLogis, 8.75%; The St. Joe Company, 8.69%; Brookfield Asset Management, 7.80%; Vornado Realty Trust, 4.74%; British Land Company, 3.68%; Henderson Land Development Co., Ltd., 2.74%; Liberty International, Inc., 2.68%; Brookfield Properties Corp., 2.59%; and Trammell Crow Co., 2.45%.



DISCUSSION OF QUARTERLY ACTIVITY

During the quarter, the Fund was a net seller of securities, primarily as the result of a large redemption from a financial advisory firm in the midst of a portfolio reallocation. Other than the one large redemption, cash inflows have exceeded redemptions since the Fund reopened to new investors on July 1, 2006. In order to meet the redemption, the Fund slightly reduced its holdings in Brookfield Common, ProLogis Common, PS Common, Trammell Common and Vornado Common. In addition, the Fund eliminated its holdings in PHH Common and Multiplex Common.

Significant purchases during the quarter consisted primarily of Wheelock Common and Wharf Common, both extremely well-financed, Hong Kong-based real estate companies trading at meaningful discounts to Fund management's estimates of net asset value. The Fund took advantage of price volatility as a result of disappointing semi-annual earnings that had little impact on our opinion of net asset value. The Fund's major disposition was Multiplex Common. Multiplex is an Australian real estate development and construction company in which the Fund opportunistically acquired common shares in mid-2005 at depressed prices. The Fund sold its remaining position in Multiplex Common during the quarter, as the market price exceeded our estimate of net asset value and there was still uncertainty surrounding the company's construction business. The Fund realized a 20.43% internal rate of return on the investment in Multiplex Common.

DIFFERENT MODELS FOR CREATING VALUE

On November 1, 2006, Third Avenue Management hosted The Value Conference in New York. Each year, several of Third Avenue Management's portfolio companies give presentations that illustrate their business model and highlight why their common stocks tend to be long-term holdings in our portfolios. This was the ninth consecutive year that a real estate company

presented at the Conference. Since the inception of the Fund in 1998, Fund Management has not been bashful about expressing its preference for real estate operating companies ("REOCs") over real estate investment trusts ("REITs"). The primary difference between REOCs and REITs is the requirement that REITs pay out 90% of their taxable income each year in dividends. Not that there is anything wrong with paying consistent dividends, but when a REIT pays out a substantial portion of its free cash flow, it is impractical to increase its asset base, without raising substantial new capital in the form of equity or debt. Since the mid-1990s, the typical REIT model has been to expand its asset base using its bank line or other corporate credit facilities, then raise equity capital (issue common shares) to pay down debt. Many REITs found that raising equity capital in the public market is: (1) very expensive (considering banking fees and cost of capital); and (2) not always available. Notwithstanding the Fund's preferences, this was the first year that a REIT presented at the Conference.

ProLogis is the largest U.S. industrial REIT and a global developer and operator of distribution facilities. ProLogis completed its initial public offering in 1994. By 1999, ProLogis had total assets of approximately \$6 billion, consisting primarily of direct-owned distribution facilities in the U.S. In 1999, it was nearly impossible for most REITs to raise equity through public offerings of common shares. ProLogis was one of a select group of REITs that developed an excellent reputation as a developer, asset manager and value creator, and earned the respect of institutional investors seeking to place equity in the hands of talented real estate operators. These institutional investors (large pension funds, etc.) tend to have lower tolerance for investment risk and, thus, lower return requirements.

In 1999 (during a period in which REIT stocks were out of favor with investors, preventing most REITs from issuing new shares to the public), ProLogis formed its



first joint venture with a pension fund to own and develop properties in California. The company also raised \$1 billion from institutional investors in a fund to finance its expansion in Europe. Since then, ProLogis has expanded its property fund assets to \$12 billion. The fund model has enabled ProLogis to rapidly expand its global platform without the need to issue common shares to fund its growth. It has also diversified the company's mix of earnings. In 1997, over 90% of earnings were generated from direct-owned properties, and only 4% was from development profits. The company's goal is to generate 35% to 45% of earnings from direct-owned properties, 25% to 35% from development profits, and 20% to 25% from property fund rents and fees.

Institutional investors are attracted to this asset class because the facilities: (1) tend to be generic and versatile (low obsolescence factor); (2) require low capital maintenance; and (3) have long-term lease contracts with credit-quality tenants and a high level of customer retention. ProLogis takes development and leasing risks by employing its own capital to acquire land and build distribution facilities. When a facility is fully leased, it is sold to one of ProLogis' property funds at appraised value. ProLogis earns a development profit in addition to a return of its invested capital. The invested capital is then available to redeploy into new development projects. A portion of the development profit is contributed into the fund for a retained ownership interest (usually about 20%). ProLogis earns its pro rata share of fund income and continues to manage the properties, generating management fees and incentive fees. The fund model has enabled ProLogis to recycle its capital and generate consistent development profits without the need to go through the process of marketing and negotiating each sale of a stabilized property. Each property is developed with the plan of selling it to a specific fund at appraised value. In essence, the property is pre-sold to a ready buyer based on a pre-

established formula. ProLogis contributes a portion of its development profit in order to retain a 20% interest in the fund that purchased the property. While ProLogis technically invests cash equity in the fund, its contribution comes out of its development profit after receiving a return of more than 100% of its capital employed during development.

The following example of a \$100 million development illustrates the benefits to ProLogis of employing its fund model compared to direct ownership:

ProLogis Direct Ownership Model¹

| | |
|-------------------------------|----------------|
| Project Cost | \$100,000,000 |
| Net operating income | \$8,500,000 |
| Development Yield | 8.5% |
| Valuation Capitalization Rate | 7.0% |
| Stabilized Value | \$121,428,571 |
| Debt financing | \$50,000,000 |
| Equity Investment | \$50,000,000 |
| Cost of Debt | 5% \$2,500,000 |
| Annual Cash Flow | \$6,000,000 |
| Year 1 ROE | 12.0% |
| Five-year IRR | 20.9% |

If ProLogis retained direct ownership of the project, it would maintain its \$50 million equity investment while earning a respectable 12% first-year return on its equity. Assuming 5% appreciation per year and a sale at the end of five years, the internal rate of return would be 20.9%. This was effectively the model employed by most REITs, including ProLogis, prior to 1999. The model works as long as the REIT is able to access new capital (debt and equity) to fund continued growth. It is also important to note that the above example assumes that the \$100 million project is a development project, as opposed to an acquisition. Most REITs are acquirers, not developers.

¹ The following example is an illustration of a hypothetical investment. The financial variables utilized in the example are based on a hypothetical investment in a \$100 million project, with a hypothetical 8.5% return. The returns in the example are not necessarily indicative of past or future returns for this issuer. This example is solely intended to illustrate the factors influencing returns on different types of investment strategies.



If a REIT acquired the property at a 7% cap rate and used 50% leverage, its ROE would only be 9%. This type of return is attractive to institutional investors and, as the following example illustrates, is more typical for the institutional investors in the ProLogis funds.

ProLogis Fund Model²

| | | |
|--------------------------------------|-------|---------------|
| Stabilized value (fund purchase) | | \$121,428,571 |
| Project cost | | \$100,000,000 |
| ProLogis capital for development | | \$50,000,000 |
| Development profit | | \$21,428,571 |
| Development ROE | | 42.9% |
| Fund purchase price | | \$121,428,571 |
| Fund debt financing | 50% | \$60,714,286 |
| Fund equity investment | | \$60,714,286 |
| Investor ROE | | 9.0% |
| ProLogis equity investment | 20% | \$12,142,857 |
| Development profit retained | | \$9,285,714 |
| Project net operating income | | \$8,500,000 |
| Cost of debt | 5% | 3,035,714 |
| Fund annual cash flow | | \$5,464,286 |
| ProLogis pro rata share of cash flow | 20% | \$1,092,857 |
| ProLogis management fees | 0.65% | 650,000 |
| ProLogis annual net cash flow | | \$1,742,857 |
| ProLogis Year 1 ROE | | 14.4% |
| Five-year IRR | | 36.4% |

The above example assumes that ProLogis sells the project to a fund for the appraised value. In so doing, ProLogis realizes a development profit of \$21.4 million, or a 42.9% return on its \$50 million of capital invested (assuming 50% leverage). The fund uses 50% leverage and requires \$60.7 million of investor capital. ProLogis contributes 20% of the capital (\$12.1 million) out of its development profits. Since this equity contribution is out of development profits, and ProLogis receives a return of its original capital plus profits from the sale, in effect, ProLogis owns a 20% interest in the fund without

investing any new cash equity. ProLogis earns a 20% pro rata share of the fund's income, plus it earns annual management fees of approximately 0.65%. The combination of pro rata earnings and management fees nets ProLogis a 14.4% first-year return on equity. However, considering that ProLogis has no real cash invested, the return on equity is substantially higher.

The other part of the equation not factored into ProLogis' return on equity is incentive fees. ProLogis is entitled to incentive fees from the funds after investors earn a minimum return. Typically, ProLogis is entitled to 20% of the residual value of the funds after investors (including ProLogis) earn a 12% internal rate of return. In the above example, assuming 5% appreciation per year and a sale by the fund at the end of five years, ProLogis' internal rate of return (including development profits, annual cash flows and incentive fees) would be 36.4%. In September 2006, ProLogis completed the IPO of ProLogis European Properties (Euronext: PEPR), a closed-end investment company, converting the ProLogis European Fund into an infinite life vehicle and creating liquidity for its fund investors. The IPO crystallized ProLogis' incentive fees totaling \$109 million, paid in the form of PEPR units and increasing ProLogis' ownership to 24% (valued at over \$800 million). ProLogis will continue to earn fees for managing PEPR and retain its customer relationships.

ProLogis is one of the few REITs to substantially increase assets under management and shareholder value without relying on the public equity markets to fund its growth. Its fund model provides ready buyers for stabilized developments, creates high-quality income streams from management contracts, allows ProLogis to accomplish continued growth with far less capital commitment than the direct-owned model, and enables ProLogis shareholders to realize significantly higher returns on equity.

² The following example is an illustration of a hypothetical investment. The financial variables utilized in the example are based on a hypothetical investment in a \$100 million project, with a hypothetical 8.5% return. The returns in the example are not necessarily indicative of past or future returns for this issuer. This example is solely intended to illustrate the factors influencing returns on different types of investment strategies.



In past shareholder letters, I have highlighted Forest City Enterprises' capital employment model that has generated above-average returns for shareholders for many years. As a real estate operating company, Forest City is not required to pay dividends to common shareholders and, therefore, is able to recycle its operating cash flow and proceeds from refinancing stabilized properties with non-recourse, fixed-rate mortgage debt. Forest City has substantially increased its asset base of high-quality projects and generated high returns on equity without substantial issuances of common shares. Forest City employs a direct-owned model whereby development projects are funded initially with equity and construction loans. Upon stabilization, non-recourse, long-term mortgage debt is placed on the property based upon appraised value. Forest City utilizes higher leverage than ProLogis, but since the debt is non-recourse to the company, higher debt levels are acceptable. Forest City's cash equity investment in the project is much lower than in the ProLogis' direct ownership model. The following example illustrates that given the same investment parameters, Forest City should generate a 17.9% ROE compared to the 12% ROE in the ProLogis direct investment model.

Forest City Model³

| | | |
|-------------------------------|-----|---------------|
| Project Cost | | \$100,000,000 |
| Net operating income | | \$8,500,000 |
| Development Yield | | 8.5% |
| Valuation Capitalization Rate | | 7.0% |
| Stabilized Value | | \$121,428,571 |
| Debt Financing | 65% | \$78,928,571 |
| Equity Investment | | \$21,071,429 |
| Cost of Debt | 6% | \$4,735,714 |
| Annual Cash Flow | | \$3,764,286 |
| Year 1 ROE | | 17.9% |
| Five-year IRR | | 33.4% |

“Fund Management acknowledges that there is no perfect model for a publicly-traded real estate company to engage in development, management and ownership of real estate properties. While we have always preferred the real estate operating company model to the REIT model, we are not doctrinaire.”

Forest City's potential ROE also compares favorably with ProLogis' 14.4% Fund Model ROE. However, given that ProLogis' equity investment is funded out of its development profits and the company is entitled to incentive fees, the 14.4% ROE is dramatically understated. Forest City also has the ability to greatly enhance its returns by periodically refinancing properties. In the example above, it is likely that five years after stabilization, the property will have appreciated in value and can be refinanced with more debt,

enabling Forest City to recoup its entire equity investment (or more). The proceeds from refinancing will then be available to reinvest in new projects. For comparison purposes, if Forest City sold the project after five years, assuming 5% annual appreciation, its internal rate of return would be 33.4%.

Fund Management acknowledges that there is no perfect model for a publicly-traded real estate company to engage

³ The following example is an illustration of a hypothetical investment. The financial variables utilized in the example are based on a hypothetical investment in a \$100 million project, with a hypothetical 8.5% return. The returns in the example are not necessarily indicative of past or future returns for this issuer. This example is solely intended to illustrate the factors influencing returns on different types of investment strategies.



in development, management and ownership of real estate properties. While we have always preferred the real estate operating company model to the REIT model, we are not doctrinaire. Real estate investment trusts, in general, for many years were beholden to the investment banks and capricious capital markets. Those REITs with talented management teams and strong track records have transcended the old model – tapped into institutional investors' appetite for stable, lower-risk returns – and built a new model that greatly enhances shareholder returns with lower capital investments. ProLogis and Forest City each has a unique business model that results in high returns on invested capital and long-term wealth creation.

SHAREHOLDER DISTRIBUTION

On December 20, 2006, a distribution of approximately \$3.52 per share was made to shareholders of record as of December 19, 2006. Of this amount, approximately \$0.89 represents ordinary income; approximately \$0.06 represents short-term capital gain, which would be taxed as ordinary income; and approximately \$2.57 represents long-term capital gain. A portion of the amount representing ordinary income (including short-term capital gain) may be treated as qualified dividend income for purposes of the 15% maximum tax rate on individuals. The information provided in this letter does not represent final tax information and, therefore, should not be used in completing your income tax returns. Information necessary to complete your income tax returns for the calendar year ending December 31, 2006 will be issued by the Fund in the early part of 2007. Shareholders, as always, have the option of receiving distributions either in cash or in newly-issued common shares of the Fund.

I look forward to writing to you again when we publish our quarterly report for the period ending January 31, 2007. Best wishes for a safe, healthy and prosperous New Year.

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 October 31, 2006, the audited net asset value attributable to the 99,168,233 common shares outstanding of the Third Avenue International Value Fund (the "Fund") was \$23.77 per share, compared with an unaudited net asset value at July 31, 2006 of \$22.95; and with the Fund's audited net asset value at October 31, 2005 of \$19.84 per share, adjusted for a subsequent distribution. At December 19, 2006, the unaudited net asset value was \$24.35 per share.

QUARTERLY ACTIVITY*

In the most recent fiscal quarter of operations, the Fund established new positions in the common stock of three companies and added to positions in the common stocks or units of 12 companies, while reducing positions in the common stocks of four companies.

Number of Shares

892,100 shares

729,720 shares

1,616,900 shares

New Positions Acquired

Aiful Corp Common ("Aiful Common")

Antarchile SA Common ("Antar Common")

Bergesen Worldwide Gas ASA Common ("Bergesen Common")

Number of Shares or Units

2,803,625 shares

200,000 shares

2,000,000 shares

500,000 shares

18,730,434 shares

15,113,000 shares

1,280,000 shares

65,000 shares

8,726,484 shares

15,591,000 shares

3,000,000 shares

580,000 units

Increases in Existing Positions

ABB Grain Ltd. ("ABB Common")

BIL International Ltd. ("BIL Common")

BRIT Insurance Holdings plc ("BRIT Common")

Canfor Corporation ("Canfor Common")

Catalyst Paper Corp. ("Catalyst Common")

Gigabyte Technology Co. ("Gigabyte Common")

Hutchison Whampoa ("Hutchison Common")

Imerys SA ("Imerys Common")

Netia SA ("Netia Common")

President Securities ("President Securities Common")

Telecom Corp of New Zealand ("Telecom Corp. Common")

Westshore Terminal Income Fund ("Westshore Units")

* Portfolio holdings are subject to change without notice. The following is a list of Third Avenue International Value Fund's 10 largest issuers, and the percentage of the total net assets each represented, as of October 31, 2006: Catalyst Paper Corp., 4.74%; BIL International, Ltd., 4.21%; Telecom Corp. of New Zealand, Ltd., 3.55%; Saskatchewan Wheat Pool, 2.87%; Nippon Sheet Glass Co., Ltd., 2.61%; Guocco Group, Ltd., 2.58%; Brit Insurance Holdings Plc, 2.55%; Aker Kvaerner ASA, 2.54%; Hutchison Whampoa, 2.50%; and CNP-Cie Natale A Portefeuille, 2.33%.



| Number of Shares | Positions Reduced |
|-------------------------|--|
| 21,682,000 shares | Chuan Hup Holdings Ltd. Common ("Chuan Hup Common") |
| 55,000 shares | Cie Generale Geophysique SA Common ("Geophysique Common") |
| 76,150 shares | JZ Equity Partners plc Common ("JZE Common") |
| 510,700 shares | Subsea 7 Inc. Common ("Subsea Common") |

REVIEW OF QUARTERLY ACTIVITY

Aiful Corp. ("Aiful") is engaged in the business of lending to the Japanese consumer. For a variety of historical and cultural reasons, Japanese banks have, until very recently, avoided the business of unsecured consumer lending, leaving it to specialist consumer finance companies. As a result, lenders such as Aiful enjoyed big spreads between their interest charges and their cost of borrowing, leading to high profitability by international standards.

Starting earlier this year, the consumer finance business came under a ferocious legislative, regulatory, and political attack. In January 2006, the Japanese Supreme Court issued a ruling that opened the door to claims by customers for return of a portion of interest paid over the last 10 years. In addition, the industry came under intense scrutiny by regulators for their collection practices. And finally, the governing party initiated a process to draft new legislation that would significantly reduce the maximum interest rates that lenders can charge.

Stock prices of Japanese consumer finance companies collapsed this year in reaction to these developments. We recently initiated a position in Aiful, one of the big four consumer lenders. Aiful leads the industry in diversifying away from the traditional consumer finance business into credit cards, home equity loans, and small business loans. We believe that the company has a very good chance of

adapting successfully to the new environment. Our initial purchase of Aiful Common was made at a price below its net asset value ("NAV"), adjusted for the likely equity impairment from overpaid interest claims and for the offsetting tax benefits.

Antarchile SA ("Antar") is a Chilean business development company, which has significant stakes in a number of companies including Empresas Copec SA ("Copec"), Colbun SA ("Colbun") and a number of fishing related companies. Copec markets and distributes gasoline and natural gas products across the country. The company also has subsidiaries that are significant producers of wood products, including lumber, panel boards and wood pulp. Colbun is engaged in the generation and distribution of electricity, primarily in the central part of Chile. Our purchase of Antar was effected at prices below its NAV.

Bergesen Worldwide Gas ASA ("Bergesen"), headquartered in Oslo, Norway, provides marine transportation services to the global gas industry. Specifically, Bergesen owns and operates the largest fleet of liquefied petroleum gas ("LPG") carriers and is one of the largest independent operators of liquefied natural gas ("LNG") carriers.

Bergesen's predecessor company, Bergesen D.Y. (one of the Fund's earlier holdings and the first one that was the subject of a takeover bid), began operating tankers in the 1930s, gradually diversifying into dry bulk, LNG, and LPG transport along with offshore storage and production. In 2003, the company was purchased and taken private by the Sohmen family, also of Norway. While a private company, Bergesen was restructured by combining its tanker and dry bulk assets with existing Sohmen family assets. The offshore production-related assets were placed into a separate entity leaving the LNG and LPG tanker assets as a stand-alone operation. In October 2005, these were renamed Bergesen Worldwide Gas ASA and listed on the Oslo Stock Exchange.



The current incarnation of Bergesen is a conservatively financed package of two distinct but related groups of assets. The LNG business is characterized by formidable capital investment and long-term contractual cash flows, while the typical LPG vessel is significantly less expensive and operates on short-term charters. Bergesen has been using the predictable cash flows of its LNG business to finance its LPG expansion. We have purchased shares of Bergesen at prices which are neither expensive relative to the company's operating profitability, nor, to its assets.

THE TENDER OFFER FOR CATALYST PAPER

As we noted in our last quarterly letter, during this quarter, certain entities at Third Avenue Management ("TAM"), including the Fund, successfully completed a tender offer for approximately 38 million shares of Catalyst Paper Corp. ("Catalyst" or the "Company"), with a view to increasing the holdings of the Fund and other clients of TAM from just below 20% to 38% of the outstanding shares. In order to exceed 20% ownership of a public company in Canada, subject to very narrow exclusions, the acquirer is required to make a tender offer open to all shareholders of such company. What follows are some of our thoughts about this investment.

Catalyst operates in a number of segments, which are challenged by factors such as stagnant or falling demand in their principal product lines, rising input costs, increasing competition from newer, non-traditional suppliers and adverse currency moves. In the case of Catalyst, in particular, the Company has made little headway in improving its competitive position. In our view, the Company would benefit from more stringent oversight of the Company's performance, where a series of poor operating results belie the Company's unusually

advantageous cost position in two key inputs: fiber and power.

The reasons behind the increase in TAM's ownership from roughly 20% to 38% of Catalyst Common include:

"We believe there is a significant opportunity to more strongly link management action to shareholder interests by, for example, aligning management compensation with returns or profitability in a manner not done previously."

- A "right sizing" of the investment. Everything else being equal, we would like to have larger investments in situations where valuations are unusually attractive. From our perspective, the valuation of Catalyst Common appears to be particularly compelling. Through the process of a tender offer we were able to increase our ownership to satisfactory levels.

- The increased ownership percentage increases the probability of TAM's voice being heard at the Company's Board level. We believe there is a significant opportunity to more strongly link management action to shareholder interests by, for example, aligning management compensation with returns or profitability in a manner not done previously. Accordingly, TAM sought consensual entry to the Board of the Company. At the beginning of December, four TAM nominated directors were appointed to the Board. We are looking forward to a productive working relationship with the Company.
- Finally, a company with a valuation as depressed as Catalyst's, combined with its attractive attributes, may attract the attention of acquirers, financial or strategic. The size of our holding makes it unlikely that a takeover bid below a fair price would be successful.

While we are aware that the Company operates in a hostile industry environment, in which we suspect that there is a likelihood of further attrition of industry players, it is our expectation that:



- With Board representation, we hope to more closely align management incentives to shareholder interests, which in turn should more keenly focus the attention of the former on the results of their actions than they have hitherto done.
- Given the attractive input costs, improved operating performance should be achievable through increased management focus, even if the industry conditions deteriorate further in the short term.

A final, cautionary comment: Catalyst is a struggling company in a difficult industry; and while we are cautiously optimistic about its prospects, there is much that can go awry.

GEOGRAPHICAL DISTRIBUTION OF INVESTMENTS

The Fund's performance may be influenced by a foreign country's political, social and economic situation. Other risks include currency fluctuations, political uncertainty, less liquidity, lack of efficient trading markets, and different auditing and legal standards. One or more of these factors may result in more volatility for the Fund.

| | % |
|-------------------------|---------|
| Canada | 12.81 |
| Japan | 12.70 |
| Norway | 8.01 |
| Singapore | 7.23 |
| Hong Kong | 6.94 |
| New Zealand | 6.25 |
| Australia | 3.55 |
| United Kingdom | 2.56 |
| Belgium | 2.33 |
| Taiwan | 2.21 |
| Poland | 2.16 |
| France | 2.13 |
| Denmark | 1.37 |
| Thailand | 0.79 |
| Netherlands | 0.69 |
| Bermuda | 0.58 |
| Chile | 0.43 |
| Switzerland | 0.29 |
| Panama | 0.17 |
| Sweden | 0.17 |
| Argentina | 0.14 |
| Equities-total | 73.51 |
| Foreign Government Debt | 4.45 |
| Cash & Other | 22.04 |
| Total | 100.00% |

Portfolio holdings are subject to change without notice.

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



SHAREHOLDER DISTRIBUTION

On December 20, 2006, a distribution of approximately \$2.83 per share was made to shareholders of record as of December 19, 2006. Of this amount, approximately \$1.09 represents ordinary income; approximately \$0.16 represents short-term capital gain, which would be taxed as ordinary income; and approximately \$1.58 represents long-term capital gain. A portion of the amount representing ordinary income (including short-term capital gain) may be treated as qualified dividend income for purposes of the 15% maximum tax rate on individuals. The information provided in this letter does not represent final tax information and, therefore, should not be used in completing your income tax returns. Information necessary to complete your income tax returns for the calendar year ending December 31, 2006 will be issued by the Fund in the early part of 2007. Stockholders, as always, have the option of receiving distributions in either cash or newly- issued shares of the Fund.

I will write you again when the report for the period to end January 31, 2007 is issued. Best wishes for a happy and prosperous New Year.

Sincerely,

Amit Wadhwaney
Portfolio Manager
Third Avenue International Value Fund

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BOARD OF TRUSTEES

| | |
|-------------------------------|--------------------------|
| Jack W. Aber | Marvin Moser |
| David M. Barse | Eric Rakowski |
| William E. Chapman, II | Martin Shubik |
| Lucinda Franks | Charles C. Walden |
| Edward J. Kaier | Martin J. Whitman |

OFFICERS

Martin J. Whitman — Chairman of the Board
David M. Barse — President, Chief Executive Officer
Vincent J. Dugan — Chief Financial Officer, Treasurer
Michael A. Buono — Controller
W. James Hall — General Counsel, Secretary
Joseph J. Reardon — Chief Compliance Officer

TRANSFER AGENT

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