



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, 2007

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Third Avenue Funds are offered by prospectus only. Prospectuses contain more complete information on advisory fees, distribution charges, and other expenses and should be read carefully before investing or sending money. Please read the prospectus and carefully consider investment objectives, risks, charges and expenses before you send money. Past performance is no guarantee of future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than original cost.

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 September 7, 2007.



Third Avenue Value Fund



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

Dear Fellow Shareholders:

At July 31, 2007, the unaudited net asset value (“NAV”) attributable to the 179,242,759 shares outstanding of the Third Avenue Value Fund (“TAVF”, “Third Avenue” or the “Fund”) was \$62.95 per share. This compares with unaudited NAVs at April 30, 2007 and July 31, 2006 of \$63.41 per share and \$54.06 per share, respectively, adjusted for a subsequent distribution. At August 31, 2007, the unaudited NAV was \$62.33 per share.

QUARTERLY ACTIVITY

Principal activities during the quarter were as follows:

Number of Shares	Positions Increased	Number of Shares	Positions Increased
105,122 shares	Cimarex Energy Co. Common Stock (“Cimarex Common”)	2,752,000 shares	Henderson Land Development Company Common Stock (“Henderson Land Common”)
1,346,991 shares	Forest City Enterprises Class A Common Stock (“Forest City Common”)	2,000,000 shares	MBIA, Inc. Common Stock (“MBIA Common”)
128,429 shares	FedFirst Financial Corp. Common Stock (“FedFirst Common”)	1,221,000 shares	Mitsubishi Estate Co. Ltd (“Mitsubishi Common”)
47,115 shares	Gouverneur Bancorp, Inc. (“Gouverneur Common”)	3,806,000 shares	Mitsui Fudosan Co. Ltd. (“Mitsui Fudosan Common”)
		1,881,033 shares	Nuveen Investments Common Stock (“Nuveen Common”)
		910,520 shares	Radian Group Inc. Common Stock (“Radian Common”)
		1,000,000 shares	USG Corp Common Stock (“USG Common”)
		3,319,000 shares	Wheelock & Co. Ltd Common Stock (“Wheelock Common”)
		55,032 shares	Positions Eliminated
		299,300 shares	Florida East Coast Industries Common Stock (“Florida East Coast Common”)
			Lindsay Corp. Common Stock (“Lindsay 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, 2007: Henderson Land Development Co., Ltd., 6.77%; Cheung Kong Holdings, 6.69%; Toyota Industries Corp., 5.77%; Posco (ADR), 4.23%; Forest City Enterprises, 3.24%; Brookfield Asset Management, 3.11%; MBIA, Inc., 2.72%; Investor AB, 2.40%; Nabors Industries, Ltd., 2.36%; and The St. Joe Company, 2.18%.



DISCUSSION OF QUARTERLY ACTIVITY

During the latter part of July, there developed a stock market panic as it relates to businesses involved with residential sub prime mortgages, home building, real estate development, and pending Leveraged Buy Outs (“LBO’s”). The Fund bought heavily into this chaotic situation by acquiring the common stocks of very strongly financed companies where the common stocks were selling at meaningful discounts from our estimates of NAVs. Such acquisitions of common stocks were Forest City, MBIA, Nuveen, Radian and USG.

Forest City probably was acquired at prices that represent a considerably smaller discount from NAV than is the case for MBIA, Radian, and USG. Forest City, an investment builder developing complex urban projects, however, has so many promising projects in its pipeline that the odds seem pretty good that Forest City, over the next five years, has the potential to substantially increase NAV.

Nuveen Common is an interesting arbitrage. Nuveen shareholders are scheduled to receive before 2007 year-end \$65 per share in cash (after a \$0.24 dividend has been paid) in an LBO. It seems as if the transaction has at least a 90% probability of closing by year-end. If so, the Internal Rate of Return (“IRR”) on the Fund’s investment made during the quarter will exceed a 15% annualized rate. Investing in Nuveen Common seemed a good use of TAVF’s surplus cash.

Forest City, MBIA, Nuveen and Radian seem to be so well financed that they can survive and prosper without needing near-term (say 2007 and 2008) access to capital markets for new funds. Capital markets may continue to be relatively chaotic.

Third Avenue continues to gradually expand its portfolio of the common stocks of energy companies engaged in North American Exploration and Production (“E & P”). Cimarex Common seems one of the better plays in North American gas E & P. The Fund continued to expand its interests in Far Eastern blue-chip companies involved in

real estate ownership and development as well as, to some extent, private equity investments. Thus during the quarter, TAVF increased its positions in the common stocks of Henderson Land, Mitsubishi, Mitsui and Wheelock.

Both Florida East Coast Common and Lindsay Common were small, but highly profitable, investments for the Fund. Florida East Coast Common was sold in a cash-out merger transaction; Lindsay Common was sold in the open market.

WHERE DOES CREDIT-WORTHINESS FIT IN?

At July 31, about 21% of the Fund’s assets were in what are considered cash and equivalents (excluding the 1.3% represented by the investment in Nuveen Common). Of this 21%, almost 58% was invested in United Kingdom Government issues, and a little over 42% was invested in U.S. Treasuries and similar instruments. Third Avenue has weighted its cash holdings toward the U.K. rather than the United States because TAVF obtains a better yield on U.K. instruments, and because of my belief that important parts of the U.S. economy, including the Federal Government, are likely to face a continued deterioration in credit-worthiness.

Absent violence in the streets (i.e., terrorism) and the continued existence of political stability, the U.S. will continue to be an attractive and relatively safe place for Outside Passive Minority Investor (“OPMI”) investment. But deteriorated credit-worthiness may well mean higher interest rates and a weaker dollar over the long term. Thus, the Fund’s weighting toward U.K. cash equivalents.

At July 31, approximately 78.1% of Fund assets were invested in common stocks. Within the common stock portfolio, 54% of the market value were in non-North American issues, and only around 46% were in issues of companies whose principal areas of interest were the United States and Canada. Of the overseas issues, 53% were Hong Kong companies; 29% were Japanese



companies; 10% was a South Korean company; and 8% were Western European companies. An explanation as to why the emphasis on overseas investments ought to be informative to TAVF shareholders.

Put simply, the Fund has invested in the equities of overseas companies with super strong financial positions for two reasons. First, the overseas common stocks, based on TAVF's cost basis, appear to be much cheaper than U.S. issues, measured by estimated discounts from readily ascertainable NAVs. Second, the overseas common stocks appear to have much greater growth potential than their domestic counterparts, measured by the probabilities that over the next five to ten years, it will be easier for the foreign companies to increase readily ascertainable NAVs by at least 15% compounded annually.

While I remain enthusiastic about the Fund's overseas investments based on attractive pricing and favorable outlooks, there are certain disadvantages for TAVF in foreign equity investing compared with passive U.S. equity investing. In brief, these disadvantages seem to encompass the following:

1) Changes of control seem out of the question, especially for each of the Hong Kong entities. Each of the businesses are majority owned by billionaire families. The market seems to be sort of efficient in that if changes of control were actually a possibility, it would be extremely unlikely that the common stocks would be available at the existing discount prices from NAV. Resource conversion activities over time in companies

such as Cheung Kong, Henderson Land and Wheelock may be limited to the sale of subsidiaries, the sale of assets and massive refinancing. In the next several years, lots of income producing real estate located in Hong Kong, Mainland China and Singapore may be sold to captive Real Estate Investment Trusts ("REIT's") at very attractive prices.

2) Compared with the U.S., there is a relative lack of Securities Laws Protections in foreign countries for OPMIs such as TAVF.

3) Despite difficulties in the U.S., this country is characterized by more political stability than any of the other countries in which we have invested, with the possible exceptions of Sweden, Switzerland and Japan.

4) Third Avenue's Hong Kong investments are in companies which have a large presence in Mainland China. Despite, and maybe because of, the rapid growth in the

Mainland, there are large problems with corruption, pollution, and ineffective regulation of all sorts of activities.

5) The disclosures given us by the companies in which we have invested are generally terrific. Nonetheless, Fund management is a lot less familiar with the culture and nuances involved in these foreign investments than is the case for North American issuers.

As bottom-up investors following a "safe and cheap*" approach, Third Avenue Management has always focused

"There exists for TAVF the strict discipline of not investing in any common stock knowingly unless the issuing company enjoys a super strong financial position. This is in contrast to almost all conventional investors who emphasize a primacy of the income account."

* "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.



on credit-worthiness much more than almost any other OPMIs. Thus, there exists for TAVF the strict discipline of not investing in any common stock knowingly unless the issuing company enjoys a super strong financial position. This is in contrast to almost all conventional investors who emphasize a primacy of the income account, i.e., principal weight in an equity valuation goes to earnings from operations and/or cash flow from operations. Almost all other OPMIs seem to denigrate the importance of strong financial positions.

This tendency to downplay the importance of credit-worthiness is prevalent also on the macro-level, probably even more so than for bottom-up investors. This attitude has been well summarized by Vice President Dick Cheney who is quoted as saying, "Deficits don't matter". For the vast majority of people, the important economics statistics are Gross Domestic Product, employment and unemployment levels, corporate earnings, and productivity increases. Credit-worthiness is pretty much ignored.

Credit-worthiness is, in the final analysis, a function of two factors. First, how much indebtedness is being incurred via balance of payments deficits, other governmental borrowing, corporate borrowings and borrowings by consumers. Of itself, increasing indebtedness is not a huge problem, provided the use of funds created by the borrowing is used productively, i.e., to create wealth. Insofar as the use of proceeds do not result in wealth creation, or it creates only modest increases in wealth, i.e., there exists a negative multiplier, or a modest multiplier, the borrowing entity, sooner or later, has to face diminished credit-worthiness (except if the entity can sell assets on a massive scale).

The U.S. is incurring massive debts. By and large, the use of proceeds from incurring this debt seems to be only modestly productive or even counter productive. These uses of proceeds seem to have non-positive, or even negative, multipliers. Non productive uses of proceeds include the following:

- By the U.S. government: massive expenditures in Iraq.
- By Consumers: massive expenditures for consumer goods that depreciate rapidly.
- By Corporate America: Leveraged Buy Outs where most of the proceeds from debt incurrence are used to make cash payments to stockholders, rather than to use the cash to build or acquire productive assets.

Given the gradual deterioration in U.S. credit-worthiness, I think it is important to encourage foreign entities to acquire control of U.S. assets and U.S. companies. Foreigners can use the proceeds from providing finance to the U.S. in three ways:

- 1) Buy and hold U.S. debt instruments.
- 2) Acquire U.S. equities or assets as passive investors.
- 3) Acquire control positions in U.S. equities and assets.

Insofar as increased amounts of debt instruments are held by foreigners, this seems likely to detract from U.S. credit-worthiness, sooner or later. This would not be the case if the proceeds from U.S. borrowing were recycled into equity investments. Given the massive amounts of U.S. debt held off-shore, passive investing is probably of limited use to creditors located in China and Japan. Rather, those creditors ought to be encouraged to acquire control of U.S. companies and U.S. assets. If so, this might prove to be a bonanza for Third Avenue. Many of the domestic companies in the TAVF portfolio appear to be ideal take-over candidates.

Again, put simply, the U.S. has so far in the 21st Century achieved prosperity and paid for prosperity with a steadily deteriorating credit-worthiness.

Macro factors point to a less optimistic outlook for the U.S. than for, say, Hong Kong or Mainland China. In spite of this, the U.S. remains the best place in the world to invest in individual securities for a bottom-up investor such as TAVF, other things being close to equal. These other things encompass businesses having strong financial



positions; prices of common stocks reflecting meaningful discounts from NAVs, and that for the long term, there exists reasonably good prospects that such NAVs will increase by no less than 10% per annum compounded.

Other things being close to equal, Fund management has a strong preference for investing in U.S.-based companies. The reasons that the U.S. remains such an attractive place to invest seem best summarized as follows:

- Relative political stability.
- Continental economy.
- Well-developed legal institutions and practice, even though the quality of the Federal judiciary appears to have deteriorated materially during the last six years.
- Well-developed financial system, including great disclosure systems and well regulated markets.
- Hard working, well-educated labor force.
- World's best university educational system.
- The world's most efficient distribution system.
- Strong depository institutions.
- Relatively honest, corruption free government.
- A plethora of highly capable, responsible corporate managers.
- Fund management has a better understanding of the U.S. culture and its nuances.

I will write you again when the Annual Report for the year to end October 31, 2007 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, 2007, the end of the Fund's fiscal third quarter, the unaudited net asset value attributable to the 86,575,877 common shares outstanding of the Third Avenue Small-Cap Value Fund ("Small-Cap Value" or the "Fund") was \$26.56 per share, compared with the Fund's unaudited net asset value of \$27.40 per share at April 30, 2007, and an unaudited net asset value at July 31, 2006 of \$23.83 per share, adjusted for a subsequent distribution. At August 31, 2007, the unaudited net asset value was \$26.44 per share.

QUARTERLY ACTIVITY

During the quarter, Small-Cap Value added to 16 of its 76 existing positions, eliminated seven positions and reduced its holdings in nine companies. At July 31, 2007, Small-Cap Value held positions in 74 common stocks, the top 10 positions of which accounted for approximately 25.71% of the Fund's net assets.

Number of Shares	Increases in Existing Positions
1,144,732 shares	Bronco Drilling Co., Inc. Common Stock ("Bronco Common")
351,900 shares	Canfor Corp. Common Stock ("Canfor Common")
75,000 shares	Canfor Pulp Income Fund Units Stock ("Comstock Common")
194,175 shares	Haverty Furniture Companies, Inc. Common Stock ("Haverty Common")
50,000 shares	Herley Industries, Inc. Common Stock ("Herley Common")
51,000 shares	K-Swiss, Inc. Class A Common Stock ("Swiss Common")
79,934 shares	Lexmark International, Inc. Common Stock ("Lexmark Common")
15,519 shares	National Western Life Insurance Co. Class A Common Stock ("Western Common")
432,435 shares	P.H. Glatfelter Company Common Stock ("Glatfelter Common")
158,100 shares	Parco Company Ltd. Common Stock ("Parco Common")
25,000 shares	Park Electrochemical Corp. Common Stock ("Park Common")
8,809,300 shares	Sapporo Holdings Ltd. Common Stock ("Sapporo Common")
203,400 shares	St. Mary Land and Exploration Co. Common Stock ("St. Mary Common")
244,603 shares	Stanley Furniture Co. Inc. Common Stock ("Stanley 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, 2007: Pogo Producing Co., 3.80%; Cimarex Energy Co., 3.43%; Brookfield Asset Management, 3.21%; Sapporo Holdings, Ltd., 2.66%; St. Mary Land and Exploration Co., 2.33%; Canfor Corp., 2.19%; Parco Co., Ltd., 2.18%; National Western Life Insurance Co. (Class A), 2.05%; Comstock Resources, Inc., 1.94%; and CommScope, Inc., 1.92%.



Number of Shares	Increases in Existing Positions (continued)
120,000 shares	TimberWest Forest Corp. Units ("TimberWest Units")
597,674 shares	Westlake Chemical Corp. Common Stock ("Westlake Common")
	Positions Reduced
480,000 shares	Agrium, Inc. Common Stock ("Agrium Common")
50,000 shares	Alamo Group, Inc. Common Stock ("Alamo Common")
457,300 shares	CommScope Inc. Common Stock ("CommScope Common")
63,600 shares	Fording Canadian Coal Trust Units ("Fording Units")
939,674 shares	Magma Design Automation, Inc. Common Stock ("Magma Common")
50,000 shares	Precision Drilling Trust Units ("Precision Units")
250,000 shares	Synopsys, Inc. Common Stock ("Synopsys Common")
100,000 shares	Tidewater, Inc. Common Stock ("Tidewater Common")
149,867 shares	Whiting Petroleum Co. Common Stock ("Whiting Common")
	Positions Eliminated
1,080,151 shares	Bandag, Inc. Common Stock ("Bandag Common")
135,000 shares	Montpelier Re Holdings, Ltd. Common Stock ("Montpelier Common")
204,805 shares	Sanderson Farms, Inc. Common Stock ("Sanderson Common")
400,000 shares	Sompo Japan Insurance, Inc. Common Stock ("Sompo Common")
337,500 shares	The Buckle Inc. Common Stock ("Buckle Common")
275,636 shares	Wauwatosa Holdings, Inc. Common Stock ("Wawatosa Common")
52,863 shares	Westwood Holdings Corp. Common Stock ("Westwood Common")

DISCUSSION OF QUARTERLY ACTIVITY

You might note that for the first time in many quarters, Fund management did not add a single new name to the portfolio, but did spend considerable time disposing of small, marginal positions, and opportunistically trimming overpriced merchandise. These slightly unusual developments reflect a desire by Fund management to i) maintain a highly liquid portfolio in the face of modest but steady net redemptions¹, a trend that unfortunately coincides with an investment environment that has become increasingly interesting; and ii) a desire to hold fewer, more meaningful positions, enabling us to further concentrate our energies on a limited number of ideas. It is my expectation that we will continue to identify new ideas in what appears to be an improving opportunity set, and to pare down those small positions that are unlikely to make a large contribution to the Fund's returns, but often require the same research resources as more significant and consequential positions.

We believe that we can protect against investment risk by better understanding fewer ideas and allocating our energies accordingly, than through diversification, *per se*. The bull market in equities of every stripe (and many other asset classes) – alluded to in last quarter's letter – afforded us ample opportunity to carry out that mission. During the quarter we also exited one holding, Bandag Common, as a result of the cash acquisition of that company by Bridgestone, a deal with a positive outcome highlighted in earlier letters. We shifted gears, however, in mid-July when the global bull market began to stumble on reports of the burgeoning credit crisis in sub-prime mortgages and other credit-related instruments. Much of the Fund's purchase activity occurred during the last few weeks of July, as liquidations of a wide variety of assets began in earnest, and market volatility intensified, creating attractive acquisition opportunities among many of the Fund's existing holdings. For example, we added heavily to our existing (but recently initiated) positions in Bronco Drilling, Sapporo Holdings, and Westlake

¹ Shares outstanding have decreased to 86,575,877 at July 31, 2007 from 92,926,351 a year ago.



Chemical, where the combination of declining share prices and steady business values greatly improved the Fund's implicit price to value proposition. Our ability to take advantage of these conditions is a result of our patience and a willingness to hold cash – the dry powder that allows us to issue “exit visas from hell” to panicked or leveraged sellers of equities.

“The only perfect hedge is in a Japanese garden.”

— *Traders' Credo*

A little more than two years ago², I wrote to you about hedge funds, questioning their headline grabbing, superstar managers, explosive growth, high costs and short-term focus with the following observations:

“Proponents of hedge funds might point out that the lower returns of hedge funds, generally speaking, come with lower volatility, and therefore, ‘lower risk.’ I couldn't disagree more. Volatility is the friend of the long-term investor, as it creates an opportunity to buy bargains and to sell when assets are priced more dearly. Though hedge fund promoters would have you believe otherwise, being down in a given period – even very briefly – as a result of market depreciation is not the same as a loss of capital. Equating volatility, or short-term moves in securities prices, to risk as hedge fund proponents (and much of academia) do, is patently wrong. What long-term investors interested in meeting future obligations ought to focus on, as we at Third Avenue strive to do, is the avoidance of investment risk, or a permanent loss of capital, not short-term market swings. Spending energy

and capital on ‘neutralizing’ market moves neither we, nor anyone else, can predict smacks of pure speculation. No doubt, some hedge funds have produced terrific results for their clients, and the universe of such products undoubtedly contains many worthy investment vehicles. But, generally speaking, the exorbitant fees, low transparency, lack of investor protections, limited

liquidity and focus on short-term results — in the context of their historic returns — seem to be the very antithesis of what investors deserve. One has to ask whether the real benefits of hedge fund investing, on the whole, are worth forgoing thousands of basis points of return over many years.”

This warning shot was really code language for “fasten your seat belts.” Well, it took awhile, but some hedge funds have made it back onto the front-page, this time for losing their clients' money

– in some cases lots of it – in very short order. Rather than providing the peace of mind that so many promised and safeguarding their clients' capital, several high profile funds run by very experienced managers are now writing “Dear John” letters to their clients. It seems that many of these hedge funds were not hedged at all, but just used lots of borrowed money to juice their returns. These managers forgot that when you are drowning on Wall Street, they don't throw you a life line, they throw you a boulder. If nothing else perhaps, these experiences should remind investors that borrowing money isn't a “skill” for which one should pay high fees!

“When considering a new investment, we are naturally defensive, skeptical and paranoid. We try to poke holes in our colleagues' ideas. We talk to business people, not to Wall Street cheerleaders. We eschew the use of leverage in our own portfolios, as well as in the companies whose securities we are invested. We ask ourselves, ‘how can this business get hurt, and what can go wrong? What is our potential downside?’”

²Third Avenue Small-Cap Value Fund, First Quarter Report, dated January 31, 2005.



Third Avenue's investment approach could not be more different from that of the hedge funds alluded to above. When considering a new investment, we are naturally defensive, skeptical and paranoid. We try to poke holes in our colleagues' ideas. We talk to business people, not to Wall Street cheerleaders. We eschew the use of leverage in our own portfolios, as well as in the companies whose securities we are invested. We ask ourselves, "how can this business get hurt, and what can go wrong? What is our potential downside?" Given the recent market turbulence, it is worth reminding you, our partners and shareholders, about the central tenets of investing at Third Avenue:

- We do not borrow money in order to invest, or to boost our returns. In the presence of lots of leverage, even a small downward twitch in the associated asset value can wipe out the investor's equity in a heartbeat;
- Our focus is on capital preservation. We invest in attractively-priced securities underpinned by conservatively financed and well-managed businesses;
- We expend little money or energy trying to avoid market risk (i.e., short-term market price fluctuations in our holdings), but we do spend an inordinate amount of time and energy trying to minimize investment risk (a loss of capital created by a permanent impairment of the business);
- We strive to share new developments in the Fund by writing these shareholder letters every quarter. We highlight new investments, dispositions and discuss both positive outcomes as well as mistakes so that you know what you own and why;

- Our mutual funds provide shareholders with daily liquidity at readily ascertainable net asset values which, in the case of the Fund, rely upon publicly quoted stock prices. This contrasts to the limited partners of a hedge fund whose needs may go unmet by the long-term lock ups typical of those funds, and whose values may be determined by some quant jockey's "model";
- We are personally invested alongside of our shareholders, an investment made on the same terms as those available to you. In my case, that investment significantly increased during the month of August.

Today's volatility, if it persists, will likely continue to set up some excellent long-term investment opportunities. Unfortunately, it seems that ideas and capital are always out of balance. Today we have more ideas than capital, while the odds of success have improved as good assets get tossed into the bargain bin. I would encourage you to look beyond the turbulence of the current period and consider adding to your own holdings in the Fund.

Thank you for your continued support. I look forward to writing you again when we publish our Annual Report for the period ending October 31, 2007.

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:

At July 31, 2007, the end of the third fiscal quarter of 2007, the unaudited net asset value attributable to the 88,814,406 shares outstanding of the Third Avenue Real Estate Value Fund (the "Fund") was \$32.78 per share. This compares with an unaudited net asset value of \$36.75 per share at April 30, 2007, and an unaudited net asset value of \$29.20 per share at July 31, 2006, adjusted for subsequent distributions to shareholders. At August 31, 2007, the unaudited net asset value was \$32.69 per share.

QUARTERLY ACTIVITY

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

Number of Shares	New Positions Acquired	Number of Shares	Increases in Existing Positions
250,000 shares	Eastgroup Properties, Inc. Common Stock ("Eastgroup Common")	17,013 shares	American Financial Realty Trust, Inc. Common Stock ("American Financial Common")
2,000,000 shares	RAIT Financial Trust Common Stock ("RAIT Common")	212,900 shares	Daibiru Corp. Common Stock ("Daibiru Common")
		777,830 shares	Derwent London plc Common Stock ("First Potomac Common")
		821,600 shares	First Potomac Realty Trust Common Stock ("First Potomac Common")
		1,570,000 shares	Mitsubishi Estate Co., Ltd. Common Stock ("Mitsubishi Common")
		235,900 shares	Quadra Realty Trust, Inc. Common Stock ("Quadra Common")
		6,204,900 shares	Sapporo Holdings, Ltd. Common Stock ("Sapporo Common")
		158,300 shares	Parco Co., Ltd. Common Stock ("Parco Common")
		39,491 shares	Tejon Ranch Company Common Stock ("Tejon 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, 2007: Forest City Enterprises, Inc., 12.20%; Brookfield Asset Management, 8.98%; The St. Joe Company, 7.06%; ProLogis, 5.31%; Henderson Land Development Co., Ltd., 5.22%; Vornado Realty Trust, 4.59%; Wharf Holdings Ltd., 3.59%; British Land Company, 3.28%; Wheelock & Co., Ltd., 2.84%; and Hang Lung Properties Ltd., 2.77%.



**Number of Shares
or Principal Amount**

25,915 shares

800,672 shares

268,500 shares

500,000 shares

2,713,000 shares

637,000 shares

12,000 shares

125,000 shares

600,000 shares

11,289,000 shares

CAD\$6,666,000

6,676,000 shares

85,200 shares

774,000 shares

10,502,000 shares

29,574,000 shares

108,000 shares

Decreases in Existing Positions

Avatar Holding, Inc. Common Stock
("Avatar Common")

Brookfield Asset Management Corp.
Common Stock ("Brookfield Common")

First Capital Realty, Inc. Common
Stock ("First Capital Common")

Forest City Enterprises, Inc. Common
Stock ("Forest City Common")

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

Hongkong Land Holdings, Ltd. Common
Stock ("Hongkong Land Common")

One Liberty Properties, Inc. Common
Stock ("One Liberty Common")

Prologis Common Stock ("Prologis
Common")

Quintain Estates & Development PLC
Common Stock ("Quintain Common")

Tai Cheung Holdings, Ltd. Common
Stock ("Tai Cheung Common")

Positions Eliminated

Sterling Centrecorp Inc., 8.5%
Debentures due 12/31/09
("Sterling Debentures")

Chinese Estates Holdings, Ltd.
Common Stock ("Chinese Estates
Common")

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

Guoco Group, Ltd. Common Stock
("Guoco Common")

Henderson Investment, Ltd. Common
stock ("Henderson Investment
Common")

Midland Holdings Limited Common
Stock ("Midland Common")

Sterling Centrecorp Inc. Common
Stock ("Sterling Common")

Number of Shares/Warrants Positions Eliminated

108,000 warrants

Sterling Centrecorp Inc. \$2.50
Warrants ("Sterling Warrants")

1,038,383 shares

Vail Resorts, Inc. Common Stock
("Vail Common")

RECENT PERFORMANCE UPDATE

The following table illustrates the Fund's total return through July 31, 2007, compared to various real estate securities indices.

Total Return, as of July 31, 2007

	<u>7 Mos.</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>
Third Avenue Real Estate Value Fund*	-5.2%	10.7%	66.3%	151.1%
MSCI US REIT Index ¹	-13.9%	-0.4%	63.2%	128.3%
Wilshire Real Estate Securities Index ²	-13.3%	-0.6%	69.0%	139.3%
Bloomberg REOC Index ³	-13.4%	3.5%	44.5%	148.8%
Bloomberg World Real Estate Index ⁴	13.0%	42.1%	129.8%	NA

* As with all mutual funds, past performance does not indicate future results. The results shown in the table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

¹ The Morgan Stanley REIT Index is a total-return index comprised of the most actively traded real estate investment trusts and is designed to be a measure of real estate equity performance.

² The DJ Wilshire Real Estate Securities Index is a broad measure of the performance of publicly traded real estate securities, such as Real Estate Investment Trusts (REITs) and Real Estate Operating Companies (REOCs) and is capitalization weighted.

³ The Bloomberg Real Estate Operating Companies Index is a capitalization-weighted index of Real Estate Operating Companies having a market capitalization of \$15 million or greater.

⁴ The Bloomberg World Real Estate Index is a capitalization-weighted index of the leading real estate stocks in the world.

Source: Bloomberg

All returns assume dividends are reinvested.



DISCUSSION OF QUARTERLY ACTIVITY

During the quarter ended July 31, 2007, the Fund was a net seller of securities, primarily due to Fund management's desire to maintain sufficient liquidity to meet shareholder redemptions and to take advantage of discount pricing available on certain other securities. Due to a sharp downturn in the market prices of most U.S. real estate-linked securities since January 31, 2007, the Fund has experienced moderate net redemptions from shareholders. At July 31, 2007, the Fund held approximately \$252 million of cash and equivalents (approximately 8.6% of Fund net assets).

The Fund initiated positions in two common stocks: Eastgroup Common and RAIT Common. Eastgroup is a U.S.-based real estate investment trust ("REIT") focused on developing, owning and managing industrial properties in the Sunbelt. The company owns a high-quality portfolio of properties and it maintains a very conservative balance sheet. The Fund acquired Eastgroup Common at a substantial discount to conservative estimates of net asset value. RAIT Common was previously a Fund holding that was sold earlier this year based on price appreciation. Recent turmoil in the credit markets created an opportunity to buy RAIT Common at a substantial discount to tangible book value. The Fund took advantage of market volatility and opportunistically added to several existing holdings, primarily Japanese holdings (Daibiru Common, Mitsubishi Common, Parco Common and Sapporo Common). The Fund selectively reduced several holdings for portfolio management reasons (as opposed to valuation) including Brookfield Common, Forest City Common and Henderson Land Common). The Fund eliminated several common stocks, including some small holdings that had appreciated substantially (Chinese Estates Common, Deltic Common, Guoco Common, and Midland Common). Sterling Debentures and Sterling Common were eliminated as a result of the company completing a going-private transaction. Vail

Common was sold based on price appreciation. Henderson Investment Common was sold after completing its transaction with Henderson Land pursuant to which all of Henderson Investment's real estate was sold to Henderson Land. The Fund's investment in Henderson Investment Common was initiated on December 22, 2006 as a pre-arbitrage with the expectation that Henderson Land would once again attempt to privatize Henderson Investment. Upon completion of Henderson Land's acquisition of Henderson Investment's real estate holdings, Henderson Investment paid a HK\$5.00 per share special dividend to shareholders, and the Fund subsequently sold Henderson Investment Common.

REAL ESTATE STOCKS ARE ON SALE, BUT FEAR RULES THE DAY

The impact of loose lending standards for sub-prime residential mortgages has recently spread beyond the U.S. housing markets and into all credit markets, including commercial real estate mortgages. Substantial increases in delinquencies and defaults on sub-prime mortgages should have come as no surprise to anyone following the housing market during the last five years. Sub-standard borrowers paid more for homes than they could afford with mortgages that offered a brief window of affordability (typically two years) followed by a near-certain increase in payments. Loan originators were more concerned about generating volume as opposed to underwriting loans to credit-worthy borrowers. The originators had a ready market to sell their loans, and were only accountable if there was outright fraud or their borrowers defaulted within the first few months. Wall Street, with its unique ability to package financial instruments that would otherwise be considered junk into strips of investment-grade rated bonds, had a huge appetite for sub-prime mortgages. Institutional investors from around the globe jumped on the bandwagon, buying investment-grade bonds backed by residential mortgages and many other asset classes (e.g., credit card receivables, commercial real estate mortgages and



corporate bonds). The key to selling these bonds to investors is obtaining investment-grade ratings from the various rating agencies (e.g., Moody's, Standard & Poor's and Fitch). Most investors have limited or no ability to evaluate the underlying assets backing the bonds, so they rely, almost exclusively, on the "rating". Each securitization typically consists of multiple classes of bonds, ranging from AAA-rated to unrated, with investment-grade classes (AAA through BBB-) making up the largest portion. But Wall Street doesn't stop there. Non-investment grade bonds are then re-packaged into new "asset-backed" securities, with the "assets" consisting of non-investment grade bonds (instead of mortgages). And, of course, the rating agencies give their seal of approval by assigning investment grade ratings to a majority of these bonds too.

The above securitization chain, which starts with a home buyer (often with a weak credit history) who needs a mortgage, and ends with institutional investors from around the globe buying AAA-rated bonds backed by thousands of loans to similar borrowers, worked very well until it became clear that rising home prices (largely fueled by global liquidity seeking yield) were unsustainable. The hope for many sub-prime borrowers was that their home would appreciate substantially in a few years, and refinancing with a more traditional mortgage would be available before their payments reset to an unaffordable level. As home values leveled off or declined, delinquencies and defaults on sub-prime mortgages increased to levels beyond the predictions built into the rating agencies'

models. The predictive models were based on historical default rates, which weren't very predictive of future defaults. How could they be? The historical data period was primarily the past decade which encompasses the last housing boom.

The unpredicted increase in sub-prime mortgage defaults resulted in the rating agencies downgrading their ratings

“Unlike sub-prime residential mortgages, there has been no significant increase in delinquencies or defaults on commercial real estate loans. Irrespective of this fact, many holders of securities backed by high-quality loans (especially those who bought on margin) are faced with having to sell at the worst possible time. Well funded, opportunistic investors are now able to buy at bargain prices.”

on some mortgage-backed securities. The result of ratings downgrades is *fear*. The prospects that an entire asset class (sub-prime mortgages) could experience losses substantial enough to wipe out the non-investment grade bonds and potentially impair investment-grade bonds sent ripples of fear through the credit markets. Fear has resulted in varied behavior, some rational and some irrational. It is rational for buyers of sub-prime mortgage-backed securities to demand higher risk premiums (higher yields and therefore lower prices for

bonds). It is also rational for lenders holding sub-prime mortgage-backed securities as collateral for loans to mark down the value of their collateral and make margin calls for additional collateral from their borrowers. But it seems irrational to assume that all debt instruments have become more risky. Almost across the board, based on the perceived increase in risk (*fear*), bids for debt instruments (both high-quality and junk) are lower, much lower.

Commercial mortgage-backed securities are similar to other asset-backed securities. These debt securities are backed by high-quality commercial real estate mortgages on office



buildings, shopping centers, hotels, etc. Unlike sub-prime residential mortgages, there has been no significant increase in delinquencies or defaults on commercial real estate loans. Irrespective of this fact, many holders of securities backed by high-quality loans (especially those who bought on margin) are faced with having to sell at the worst possible time. Well funded, opportunistic investors are now able to buy at bargain prices.

The global credit crunch has also had a dramatic impact on stock prices for publicly-traded real estate companies – both domestic and foreign. Credit for most asset classes has become less available since the beginning of 2007 because the ultimate holders of debt instruments – investors in asset-backed securities – are demanding higher risk premiums (higher yields), thereby driving up financing costs for borrowers. Higher financing costs for owners of commercial properties may ultimately translate into lower property values despite continuing strong property fundamentals. Loans on commercial properties are typically priced at a spread over 10-year Treasuries. Since the beginning of 2007, spreads have increased by 50 to 100 basis points while the yield on 10-year Treasuries has remained fairly stable. As a result, lenders have reduced the amount of debt they are willing to provide, and more cash equity is being required from borrowers, thereby reducing the amount they can offer for properties.

A recent example that highlights the excessive use of leverage is Blackstone's acquisition of Equity Office Properties in February 2007. Blackstone immediately flipped large portions of the Equity Office portfolio to buyers that employed high leverage. One buyer paid \$7 billion for a portfolio of seven Manhattan office properties and obtained a debt package of \$6.95 billion, a significant portion of which is short-term debt. The buyer's plan was apparently to either sell properties or seek refinancing prior to the short-term debt maturing. The current credit environment places doubt on this borrower's ability to refinance.

It is important to reiterate that the vast majority of the Fund's holdings are in companies that are extremely well-financed and have the ability to control the timing of when they access capital markets for debt or equity. Management of these companies tends to be conservative. They take advantage of inexpensive capital when it is available, as opposed to waiting until there is a dire need for capital. It would be entirely out of character for any of the Fund's portfolio companies to enter into highly-leveraged transactions as described above, especially with short-term, recourse financing.

Chaotic credit markets may also have an upside for many of the real estate companies in the portfolio. For companies that have locked-in, long-term, low rate, non-recourse borrowings secured by specific properties (e.g., Forest City Enterprises), the current credit market turmoil enhances underlying values for these properties. In almost all these cases, buyers of these properties should be able to assume the existing low-cost, long-term indebtedness.

Blackstone's acquisition of Equity Office Properties in February 2007 also marks the top of the market for U.S. REIT stocks. From February 7, 2007 through July 31, 2007, the MSCI U.S. REIT Index was down approximately 24%. (Note: During the same period, the Fund was down approximately 11%). Fund management estimates that U.S. REIT stocks, on average, were trading at 10% premiums to net asset value at the peak. The dramatic correction seems to price in all of the bad news related to the credit markets. It also seems to reflect the sentiment that the merger and acquisition boom for REITs (private equity funds taking REITs private in highly-leveraged transactions) is over for the time being. The abundance of debt available to complete public-to-private transactions created a situation where high-quality commercial properties were valued higher by private owners than public companies. The simple reason being private owners are generally willing to use more



debt (take greater risk) to create higher returns on equity than public companies. Tighter credit will no doubt slow down public-to-private transactions. But the sell-off in real estate stocks in reaction to tighter credit seems quite overdone. At July 31, 2007, Fund management estimates that, on average, U.S. REIT stocks were trading at a 20% discount to net asset value.

Fund management has often stated its view that common stocks of most publicly-traded real estate companies should normally trade at discounts to underlying net asset value. However, current discounts we are seeing today represent extraordinary opportunities to buy common stocks in extremely well-financed real estate companies. 1999 was the last time real estate stocks traded at similar discounts. As is often the case, well-funded, opportunistic investors are able to take advantage of fear in the market. Unfortunately, market forces beyond our control – fearful investors selling irrationally when stock prices are down – limit the Fund's ability to take full advantage of the bargains offered in real estate stocks.

I look forward to writing to you again when we publish our quarterly report for the fiscal year ending October 31, 2007.

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, 2007, the unaudited net asset value attributable to the 96,856,483 shares outstanding of the Third Avenue International Value Fund (the "Fund") was \$24.86 per share, compared with the Fund's unaudited net asset value at April 30, 2007 of \$22.99 per share, and an unaudited net asset value of \$20.13 per share at July 31, 2006, adjusted for the distribution of \$2.82 per share. At August 31, 2007, the unaudited net asset value was \$23.73 per share.

QUARTERLY ACTIVITY:

In the most recent quarter, the Fund established new positions in the common (and preferred) shares and warrants of three companies, added to positions in the common shares of 11 companies, reduced holdings in the common shares of nine companies and eliminated six positions.

Number of Warrants

512,500 warrants

New Positions Acquired

Dundee Precious Metals Inc. Warrants
("Dundee Warrants")

Number of Shares or Units

482,800 units

680,000 shares

9,660 shares

2,393,213 shares

190,392 shares

69,400 shares

469,800 shares

15,718,000 shares

10,200 shares

New Positions Acquired

Fording Canadian Coal Trust Units
("Fording Units")

LG Corp. Common Stock
("LG Common")

LG Corp. Preferred Stock
("LG Preferred")

Increases in Existing Positions

ABB Grain Ltd. Common Stock
("ABB Common")

Antarchile SA Common Stock
("Antarchile Common")

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

BW Gas ASA Common Stock
("BW Gas Common")

Capital Securities Corp. Common
Stock ("Capital Common")

Daibiru Corp. Common Stock
("Daibiru 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, 2007: Saskatchewan Wheat Pool, 6.65%; Catalyst Paper Corp., 4.76%; BIL International, Ltd., 4.67%; ABB Grain, Ltd., 3.36%; Guoco Group, Ltd., 3.05%; Nippon Sheet Glass Co., Ltd., 2.99%; Hutchison Whampoa, 2.94%; Fuhwa Financial Holding Co., Ltd., 2.91%; Canfor Corporation, 2.81%; and Brit Insurance Holdings PLC, 2.77%.



Number of Shares or Units	Increases in Existing Positions (continued)	Number of Shares	Decreases in Existing Positions
1,025,000 shares	Dundee Precious Metals Inc. Common Stock ("Dundee Common")	78,000 shares	Liu Chong Hing Investment Ltd. Common Stock ("Investment Common")
1,634,000 shares	Fuhwa Financial Holding Co. Common Stock ("Fuhwa Common")	772 shares	Norton Holdings Ltd. Common Stock ("Norton Common")
292,000 shares	Futaba Corp. Common Stock ("Futaba Common")	19,661,000 shares	Telecom Corp. of New Zealand Ltd. Common Stock ("Telecom Common")
7,233,000 shares	President Securities Corp. Common Stock ("President Common")	775,000 shares	UOB-Kay Hian Holdings Ltd. Common Stock ("UOB Common")
4,486,764 shares	Saskatchewan Wheat Pool Inc. Common Stock ("Pool Common")	224,000 shares	Vitasoy International Holdings Ltd. Common Stock ("Vitasoy Common")
Positions Eliminated		DISCUSSION OF QUARTERLY ACTIVITY	
75,400 shares	Agrium Inc. Common Stock ("Agrium Common")	<p>One of the purchases this quarter, LG Corporation ("LG Corp."), is a company based in South Korea, whose assets primarily consist of large stakes in a number of subsidiaries under the LG Group umbrella. There are currently 14 such subsidiaries (six listed and eight unlisted), as well as 14 sub-subsidiaries (companies in which LG Corp.'s subsidiaries hold stakes). One of LG Corp.'s listed subsidiaries, LG Electronics, Inc., is a leading global manufacturer and marketer of various electronics products, including telecommunications handsets; appliances, such as washing machines and air conditioners; plasma display panels; and digital media products. Other listed subsidiaries include LG Chemicals, a leading chemical manufacturer which produces petrochemicals such as PVC and ABS, as well as other products such as rechargeable batteries and automobile materials; and LG Telecom Ltd., South Korea's third-largest provider of mobile telecommunication services. LG Corp.'s unlisted subsidiaries operate in various businesses, ranging from silicon wafer manufacturing to IT consulting services.</p> <p>LG Corp. benefits from an additional asset in the form of royalty income generated from its subsidiaries' use of the "LG" brand name and logo. This royalty income, which</p>	
226,952 ADRs	Cresud S.A. American Depository Receipts ("Cresud ADRs")		
599,800 shares	Fujitsu Business Systems Ltd. Common Stock ("Fujitsu Common")		
175,000 shares	Investor AB Common Stock ("Investor Common")		
4,486,764 receipts	Saskatchewan Wheat Pool Inc. Subscription Receipts ("Pool Receipts")		
480,300 shares	Subsea 7 Inc. Common Stock ("Subsea Common")		
Decreases in Existing Positions			
180,000 shares	Aker Kvaerner ASA Common Stock ("Aker Common")		
233,050 units	Canfor Pulp Income Fund Units ("Canfor Pulp Units")		
33,700 shares	Farstad Shipping ASA Common Stock ("Farstad Common")		
147,214 shares	HAL Trust Common Stock ("HAL Common")		



is based on a percentage of the participating subsidiaries' sales, amounted to nearly \$150 million USD in 2006. LG Corp.'s balance sheet has strengthened significantly in recent years, as the company has used proceeds from the sale of non-core assets to pay down debt; and its financial position is strengthened further by the aforementioned royalty income, which provides a relatively stable source of cash, as it is derived from revenue (versus subsidiary dividend payments, which may be contingent upon profitability). Shares of LG Corp. were purchased at prices which, at the time, represented a modest discount to the market value of the company's stakes in its listed subsidiaries, net of all balance sheet liabilities. After taking into account LG Corp.'s portfolio of unlisted subsidiaries, as well as its royalty income generated by the "LG" brand name, shares were purchased at a meaningful discount to what we believe is a conservative estimate of Net Asset Value.

During this quarter, the Fund subscribed to an offering of Dundee Precious Metals Inc. units ("Dundee Units"), comprising Dundee Common and Dundee Warrants. The proceeds of this offering are earmarked for capital investment in one of the company's ongoing capital projects, as well as for general corporate purposes.

During this quarter, the Fund's holding in Pool Receipts was exchanged for Pool Common upon the consummation of the acquisition of Agricore United by Saskatchewan Wheat Pool Inc. (the "Pool"). The combination of the Pool and Agricore United has created, by far, the largest grain handling network in the Canadian Prairie provinces. This combination will result in an entity that is estimated to handle in excess of 40% of the Western Canadian grain output. However, in time

this might prove to be conservative, considering that the combined entity has a significantly higher percentage of the Prairie's modern and most efficient grain handling capacity. Further, the merger has combined the two largest distributors of agri-products (e.g., seed, fertilizers, herbicides, etc.) in the region. The combined entity should be able to realize significant economies in both the grain handling and agri-products operations. Finally, management has ensured the financial strength of the resultant entity by financing the acquisition of Agricore, in considerable part via a series of equity raisings.

"It is important to us, at Third Avenue, that the companies in which we invest are strongly capitalized. We typically avoid investing in the common shares of companies with balance sheets lacking sufficient 'staying power' to weather periods of difficulty (for the company or the industry at large.)"

Last year we invested in two newly-created Bermuda catastrophe reinsurance companies, Blue Ocean Reinsurance Ltd. ("Blue Ocean"), sponsored by Montpelier Re Holdings Ltd. ("Montpelier Re"), and Norton Holdings Ltd. ("Norton"), sponsored by BRIT Insurance Holdings PLC ("BRIT"). We have known the management teams of Montpelier Re and BRIT to be disciplined underwriters

and careful stewards of investors' capital. When prices and terms in the catastrophe reinsurance markets weakened in the first half of this year, both of these companies remained true to their standards and ceased writing new business rather than compromise their discipline. We have received partial returns of capital from Blue Ocean and Norton in June and July of this year, and expect to receive the rest early next year – provided, of course, that we do not suffer from an extraordinary catastrophe (natural or otherwise) in the meantime.

During this quarter, Fund management signed a sale agreement for the Fund's holding of Toll NZ Ltd. Common ("Toll NZ Common"), the sale of which is



expected to conclude next quarter, barring any unanticipated regulatory obstacles. This position was initiated during the early years of the Fund when, for a while, it was one of its largest holdings. Fund Management rejected a tender offer for Toll NZ Common of NZ\$1.10 per share during late 2003, as we felt it was inadequate. The current offer of NZ\$3.00 per share, in Fund Management's view, more adequately reflects the shares' value; and, accordingly, we have agreed to tender our holding.

THE FUND AS A CAPITAL PROVIDER

It is important to us, at Third Avenue, that the companies in which we invest are strongly capitalized. We typically avoid investing in the common shares of companies with balance sheets lacking sufficient "staying power" to weather periods of difficulty (for the company or the industry at large.) In general, the role of the Fund is that of an outside passive minority investor investing in company securities and staying largely on the sidelines when it comes to matters of determining the capital structure of the investee company. Occasionally, however, the Fund might, by itself or in conjunction with other shareholders and with the investee company management's support, participate in a fundraising by the company. The circumstances for such provision of capital might be quite varied, for example:

- The investee company perceives a business opportunity which, if pursued by itself, might potentially compromise the quality of its balance sheet. A recent example of this was the Fund's purchase of Pool Receipts with a view to facilitating its acquisition of Agricore United. Equally likely, it could be capital for investment in and/or expansion of the company's operations, as was the case when the Fund recently purchased Dundee units, some of the proceeds of which were earmarked for investment in one of the company's projects.

- The Fund has the opportunity to invest alongside a company management team which it holds in high regard. Examples of this type of circumstance would include the Fund's investments in Blue Ocean and Norton, which we commented upon above. In both cases we thought highly of the parent companies' management teams (Montpelier Re and BRIT, respectively), and when each of them proposed a standalone vehicle to house their retrocessional business, we took advantage of the opportunity to invest in such a venture.
- The Fund is able to provide capital to an investee company in times of difficulty. In an investment predating the formation of the Fund, another of the investment vehicles at Third Avenue Management LLC participated in a recapitalization of BRIT (one of the Fund's current holdings), whose capital had been severely eroded by the events of September 11, 2001. At that time, this funding not only helped BRIT to move rapidly to take advantage of the attractive pricing in the insurance markets at that time, but also served as a foundation for building the well-capitalized company that it is today.

In the current unsettled investment environment, where the bar to raising capital has continued to rise, the Fund could potentially serve once again as a provider of capital to businesses which face the above circumstances. The preferred investment opportunity of this type represents more than just an additional purchase of inexpensive stock; rather, it would be an opportunity to improve the investee company's business and enhance the Fund's existing investment, as it was in the case of the Pool. Under these conditions, the Fund has the opportunity to partner with a management team that it thinks highly of, in an attractive business, and on terms that meet our investment criteria.



GEOGRAPHICAL DISTRIBUTION OF INVESTMENTS

At the end of July 2007, the geographical distribution of securities held by the Fund was as follows:

Canada	17.99%
Japan	13.95
Singapore	8.78
Hong Kong	8.32
Taiwan	7.03
Norway	4.82
New Zealand	4.38
Australia	3.36
United Kingdom	2.77
Belgium	2.65
Denmark	2.18
Chile	2.17
Bermuda	1.98
Poland	1.94
South Korea	1.62
Thailand	0.96
France	0.88
Switzerland	0.32
Netherlands	0.30
Equities-total	86.40
Cash & Other	13.60
Total	<u>100.00</u>

Note that the table provided 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, 2007.

Sincerely,

Amit Wadhwaney
Portfolio Manager,
Third Avenue International Value Fund

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TRANSFER AGENT

PFPC Inc.
P.O. Box 9802
Providence, RI 02940
610.239.4600
800.443.1021 (toll-free)

INVESTMENT ADVISER

Third Avenue Management LLC
622 Third Avenue
New York, NY 10017

CUSTODIAN

Custodial Trust Company
101 Carnegie Center
Princeton, NJ 08540



Third Avenue Funds
622 Third Avenue
New York, NY 10017
Phone 212.888.5222
Toll Free 800.443.1021
Fax 212.888.6757
www.thirdavenuefunds.com