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, 2007

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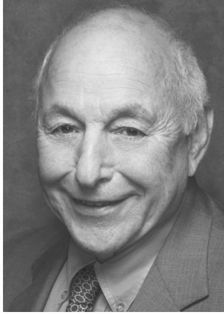
If you should have any questions, please call 1.800.443.1021, or visit our web site at: www.thirdavenuefunds.com, for most recent month-end performance data or a copy of our prospectus. Current performance results may be lower or higher than performance numbers quoted in certain letters to shareholders.

M.J. Whitman LLC, Distributor. Date of first use December 24, 2007.

Third Avenue Value Fund



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

Dear Fellow Shareholders:

At October 31, 2007, the end of the Fund's seventeenth fiscal year, the audited net asset value attributed to the 178,201,270 shares outstanding of the Third Avenue Value Fund ("TAVF", "Third Avenue" or the "Fund") was $68.04 per share. This compares with an unaudited net asset value at July 31, 2007 of $62.95 per share and an audited net asset value adjusted for a subsequent distribution of $56.95 per share at October 31, 2006. At December 19, 2007 the unaudited net asset value was $61.99 per share, unadjusted for the shareholder distribution.

QUARTERLY ACTIVITY

Principal activities during the quarter were as follows:

Principal Amount or Number of Shares	New Positions Acquired
$1,000,000	ISE Convertible Promissory Note ("ISE Converts")
1,486,200 shares	Alliance Data Systems Common Stock ("Alliance Common")
726,718 shares	Ceridian Corp. Common Stock ("Ceridian Common")

Number of Shares	New Positions Acquired (continued)
1,000,000 shares	MGIC Investment Corp. ("MGIC Common")
	Positions Increased
1,528,876 shares	Cimarex Energy Co. Common Stock ("Cimarex Common")
1,000,000 shares	CIT Group Common Stock ("CIT Common")
254,434 shares	Forest City Enterprises Class A Common Stock ("Forest City Common")
7,248,000 shares	Henderson Land Development Co. Ltd. Common Stock ("Henderson Land Common")
1,600,497 shares	MBIA Common Stock ("MBIA Common")
1,000,000 shares	Mitsubishi Estate Common Stock ("Mitsubishi Common")
1,194,000 shares	Mitsui Fudosan Co. Common Stock ("Mitsui Fudosan Common")
1,000,000 shares	Nabors Industries Ltd. Common Stock ("Nabors Common")
118,967 shares	Nuveen Investments Class A Common Stock ("Nuveen 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 October 31, 2007: Cheung Kong Holdings, 8.63%; Henderson Land Development Co., Ltd., 8.32%; Toyota Industries Corp., 5.58%; Posco (ADR), 5.08%; Forest City Enterprises, 3.24%; Brookfield Asset Management, 3.36%; Forest City Enterprises, Inc., 3.28%; MBIA, Inc., 2.51%; Wheelock & Co., Ltd., 2.42%; Nabors Industries, Ltd., 2.34%; and The Bank of New York Mellon Corp., 2.22%.

Principal Amount or Number of Shares	Positions Increased (continued)
7,822,050 shares	Radian Group, Inc. Common Stock (“Radian Common”)
593,910 shares	St. Joe Common Stock (“St. Joe Common”)
1,549,600 shares	Toyota Industries Corp. Common Stock (“Toyota Industries Common”)
500,000 shares	USG Corp. Common Stock (“USG Common”)
4,122,000 shares	Wheelock & Company Common Stock (“Wheelock Common”)
	Position Eliminated
$250,750,000	Collins & Aikman Product Co. Senior Unsecured Notes (“Collins & Aikman Senior Notes”)

The investment in ISE Converts represents a further cash infusion into the Fund’s venture capital investment in ISE Corp. ISE Corp., based in San Diego, is a leading provider of hybrid gas and hybrid diesel bus engines.

Because of recent panic in the credit markets, risk arbitrage spreads widened materially, even in cases where cash-out mergers seemed likely to close despite the credit crunch. These large spreads seemed unprecedented. During the quarter, Third Avenue acquired positions in three of these merger arbitrages: Alliance Common, Ceridian Common and Nuveen Common, because it appeared as if annualized returns to TAVF would exceed 20%. Two of the transactions – Nuveen and Ceridian – closed in November. The other one, Alliance, is scheduled to close in January or early February.

TAVF expanded its holdings in the energy sector during the quarter by adding to existing positions in Cimarex Common and Nabors Common. Cimarex is an important Exploration and Production company in North America, with emphasis on natural gas. Nabors is the largest land drilling company in the world, with a rapidly increasing business outside of North America.

Henderson Land and Wheelock are Hong Kong-based blue chip companies with extensive interests in real estate and private equity. Both companies have meaningful growth prospects in Mainland China. It appears as if TAVF acquired Henderson Common and Wheelock Common at prices that represent substantial discounts from readily ascertainable Net Asset Values (“NAV”). It appears as if both Henderson Land and Wheelock have very good prospects for increasing NAVs over the long term by much better than 10% per annum compounded.

Toyota Industries is another blue chip, 24% of whose common stock is owned by Toyota Motor. Toyota Industries Common performed poorly on the Tokyo Stock Exchange during the quarter, even though the Company’s operating results were very good. The Fund acquired additional shares of Toyota Industries Common during this period. The issue was priced at less than 9 times current earnings on a look-through basis (i.e., adding back to Toyota Industries’ earnings the undistributed profits for the period from Toyota Industries’ investments in portfolio companies, principally a 5.5% ownership interest in Toyota Motor Common); and a discount of approximately 40% from NAV before deducting deferred income taxes.

Mitsui Fudosan and Mitsubishi Estate own a majority of the Class A office buildings in downtown Tokyo and downtown Osaka. As leases are renewed, rental rates are increasing to market rates. Mitsui Fudosan Common and Mitsubishi Common seem to be selling at discounts from NAVs. Prospects for double digit increases in NAVs over the next several years appear to be quite good. The same can be said for Forest City Enterprises, a leading investment builder, focused on the United States rather than Japan.

CIT Common, MGIC Common, MBIA Common, Radian Common, St. Joe Common and USG Common are securities selling at ultra depressed prices because the companies are directly involved with the residential mortgage meltdown and/or the residential housing collapse. For example, MBIA Common has been selling

at about a 57% discount from Adjusted Book Value, and Radian Common has been selling around a 77% discount from a book value written down to reflect $400 million of calendar third quarter 2007 unrealized losses based on mark to market accounting. Both MBIA and Radian appear to be very well financed.

Collins & Aikman Senior Notes were sold during the quarter. The realized loss on the Collins & Aikman investment was approximately $150 million, the largest loss ever incurred by the Fund in its 17-year history. TAVF management simply misanalyzed the situation. The company's free fall into Chapter 11 and the loss of support from its three principal customers – General Motors, Ford and Chrysler – was at a materially faster rate than Fund management thought would be the case. Also, Collins & Aikman's exit from bankruptcy was not fast enough to avoid the feeding frenzy perpetrated by the professionals, i.e., lawyers and investment bankers. With hindsight, this seems to have been pretty stupid on our part. Fund management should have known better – especially given the fact that (i) the Fund has been relatively close to Toyota Industries for 10 years and owns approximately $675 million of the Company's Common; and (ii) it is not like we lack experience in restructuring proceedings.

Ameliorating the pain to some extent is the fact that the Collins & Aikman capital loss was able to offset a substantial amount of the long-term capital gains realized by the Fund in fiscal 2007 because of several takeovers of portfolio companies. Thus, TAVF's long-term capital gains for fiscal 2007 is indicated to amount to only $0.46 per share.

THE RESIDENTIAL MORTGAGE MELTDOWN AND HOUSING COLLAPSE

TAVF is investing heavily in the common stocks of companies suffering through the current housing crisis. These companies include financial institutions, a home builder, a building supplier, land banks and investment builders. The Fund's reasons for this investment program provide a good case study as to how Third Avenue's "safe and cheap*" approach works in practice:

First, the bad side of these investments:

1) The stock market pricing for these equity issues is chaotic. There is no way Fund management is able to pick a bottom for securities prices, or a near bottom.

2) Fund management has no good idea of how deep the crisis will become, or how long it will last. Our best guess is two to four years.

Second, the good side of these investments:

1) In each instance, TAVF is acquiring common stocks at meaningful discounts from readily ascertainable NAVs. In the case of certain financial institution common stocks – MGIC Common, MBIA Common and Radian Common, the prices the Fund is paying are no more that 40% of book value, or adjusted book value. For each of these companies, a normalized Return on Equity (equity equals book value) ("ROE") ranges from 8% to 14%. Assuming a 10% ROE sometime in the future, and no further dramatic deterioration in book value during the interim, probably a realistic assumption; and current pricing at 40% of book value, Third Avenue would be paying only four times future normalized earning power. There seems to be a reasonable probability, too, that TAVF is really paying less than four times normalized earnings, even assuming that future normalized earnings are fully taxed and even assuming some modest dilution of the common stocks.

2) Each common stock acquired, is acquired in a company which enjoys a strong financial position. While there can be no guarantees, the probabilities

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

are that each of these companies will survive as solvent going concerns either without requiring major access to capital markets for new funding, or by obtaining new funding from others on terms that are only modestly dilutive for TAVF. On December 10th, MBIA announced that it is obtaining $500 million of equity financing from Warburg Pincus; and another $500 million from a rights offering which Warburg Pincus will backstop, i.e., underwrite. Assuming that Third Avenue participates in the rights offering and also takes advantage of any oversubscription privileges, the capital infusion should be, at worst, only modestly dilutive for TAVF.

3) Each company seems very well managed.

4) It is possible that the crisis will become increasingly deep, and prolonged; or rating agencies will start to place great weight on soft, qualitative considerations. In those events, the companies might need capital infusions to remain going concerns. TAVF has proposed to MBIA, Radian and USG managements that such infusions be in the form of equity, and that existing stockholders provide the equity via pre-emptive rights offerings. MBIA proposes to raise $500 million via a rights offering. If this were to occur, and if other portfolio companies were to follow the MBIA path, the capital infusions would be, for Third Avenue, mostly non-dilutive, or anti–dilutive (if there are oversubscription privileges). In the case of MBIA and Radian, it is crucial if they are to remain going concerns, that the national rating agencies continue to assign AAA and AA ratings, respectively, to each company's bond insurance subsidiaries. As an aside, given current prices, TAVF would probably not lose money if Radian or MBIA were to go into run-off rather than remain going concerns. Run-off, i.e., liquidation, simply is not a likely outcome, however.

It would appear as if capital infusions would not become necessary if the rating agencies were to rely on only hard, quantitative data. However, this month, Moody's announced that in reviewing ratings it would also consider soft qualitative data, much as Moody's views as to what "investor perceptions" are. Consideration of such qualitative factors as investor perceptions seems to increase the probabilities that Radian might seek a capital infusion as was the case for MBIA. At December 21st, TAVF owns 12.9% of the Radian Common outstanding, and 8.0% of the MBIA common outstanding.

At current depressed prices, the Fund would rather buy common stocks from the companies than from company stockholders. If rights offerings were to become available not only for MBIA, but also others, TAVF might have attractive buying opportunities.

In analyzing each of the financial institutions, Generally Accepted Accounting Principles ("GAAP") tend to be quite misleading. This is because GAAP require that derivatives such as the Credit Default Swaps be marked to market – and market prices now are highly capricious, to say the least.

Marks to market are the most appropriate, and helpful, tool in the appraisal of publicly-traded common stocks held in trading portfolios. Marks to market are an inappropriate, and unhelpful, tool in the appraisal of credit instruments held in portfolios where the intent is to hold the credit instruments to maturity. MBIA and Radian intend to hold their credit instruments to maturity. Third Quarter 2007 mark to market losses recorded by MBIA and Radian were as follows:

Issuer	(000) Mark to Market Losses, net after taxes	Per Share
MBIA	$222,000	$1.80
Radian	$404,000	$5.02

Further, MBIA announced on December 10th that its mark to market losses for the fourth calendar quarter of 2007 will be significantly greater than they were in the third quarter.

The real losses to MBIA and Radian will be determined not by marks to market, but by

(a) the percentage of the portfolios that suffer money defaults, plus

(b) how those money defaults work out after recoveries from foreclosures, restructurings, refinancings and reinvestments.

MBIA's fourth quarter 2007 reported losses will be staggering. In addition to mark to market losses, the preliminary indications are that case reserves will be increased by $500 million to $800 million pre-tax. The Company, however, will remain with a quite strong capital position.

> **"The mortgage meltdown-housing collapse seems nothing new for the U.S. economy. During the last 60 years, virtually every sector of the American economy has gone through depressions as bad as anything that occurred in the 1930s."**

When I first trained as an analyst – some 50 plus years ago – the primary role of GAAP was to meet the needs of creditors who held credit instruments to maturity. That's all changed now. The primary role of GAAP seems to have become to fulfill the perceived needs of equity holders who are vitally affected by day to day changes in common stock prices. As I've pointed out in previous letters – What a waste! GAAP can't really be very useful to stock market speculators, but it can hurt issuers like MBIA and Radian. In any event, TAVF, as a "safe and cheap" investor, will continue to place primary weight on "what the numbers mean" rather than on "what the numbers are".

Though I feel very good about our investing program into U.S. housing related companies, TAVF is hardly "betting the ranch" on such investments. At October 31, the Fund had $1 billion, or 8.3% of its net assets, in such investments. In contrast, for example, the Fund had $3.2 billion, or 26.2% of its net assets, invested in the common stocks of Hong Kong-based companies involved with real estate and private equity.

Over the years, TAVF has been rather successful in distress investing, the recent Collins & Aikman debacle notwithstanding. The key to most of the distress successes was the Fund successfully indentified, and acquired at bargain prices, the fulcrum security of the troubled issuer, i.e., the most senior security which would participate in a reorganization. Our current housing crisis investments are very much like our other distress investing (e.g., Nabors Industries, Covanta, Kmart, USG) except here the fulcrum security investment is common stock rather than credit instruments. To push the analogy a little further, as a return to normal times occurs, it appears as if the common stocks either will be reinstated (i.e., the capital invested will remain intact) or that there will be a reorganization (i.e., companies will need capital infusions.) A principal risk to the Fund could occur if the businesses seek capital infusions, and if such infusions are on a basis that would be highly dilutive to existing stockholders.

Historically, financial guaranty insurance has been a highly profitable business for the monoline insurers, even though the insureds received a very attractive deal by being able to obtain AAA ratings at low cost. Insurance company profitability is measured by a combination of underwriting profits and net investment income. Underwriting profit is measured by the "combined ratio", i.e., the ratio of the sum of losses and expenses to net premium income and net premiums written. Net investment income, usually all interest income, tends to be larger as long as loss liabilities are "long tail", i.e., the losses do not have to be paid out until long after the insurance premiums have been collected and then invested in bonds. Typically, MBIA's insurance subsidiaries have enjoyed a combined ratio each year under 40%. Net investment income for the MBIA insurance subsidiaries has grown over the years to almost $600,000,000 per annum. The prospects appear quite

good to Fund management that, once past the current housing difficulties, MBIA will return to its historic patterns of very attractive combined ratios and relatively steady growth in net investment income.

The mortgage meltdown-housing collapse seems nothing new for the U.S. economy. During the last 60 years, virtually every sector of the American economy has gone through depressions as bad as anything that occurred in the 1930s. Remember the melt-downs during the past 40 years for, inter alia energy, banks, real estate, savings & loans, Wall Street brokerages, row crops, steel, automobiles, machine tools, etc. Unlike the 1930s, all these depressions occurred without domino effect. The probability seems to be that the next ten years in the U.S. will be more like the last 40 than they will be like the 1930s. Put otherwise, the odds favor overcoming the current crisis in residential housing and residential housing finance without underlying damage to the U.S. economy.

SHAREHOLDER DISTRIBUTION

On December 19, 2007, a distribution of approximately $2.09 per share was made to stockholders of record on December 18, 2007. Of this amount approximately $1.63 represents ordinary income; approximately $0.01 represents short-term capital gains, which would be treated for income tax purposes as ordinary income; and approximately $0.46 represents long-term capital gains. A portion of the amount representing ordinary income (including short-term capital gains) 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, 2007, will be issued by the Fund in the early part of 2008. Shareholders, as always, have the option of receiving their distribution either in cash or newly-issued shares of the Fund.

I will write you again when the report for the quarter to end January 31, 2008 is published. Best wishes for a happy and prosperous New Year.

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 October 31, 2007, the end of the Fund's fiscal year, the audited net asset value attributable to the 81,182,322 common shares outstanding of the Third Avenue Small-Cap Value Fund ("Small-Cap Value" or the "Fund") was $27.66 per share, compared with the Fund's audited net asset value of $25.12 per share at October 31, 2006, adjusted for a subsequent distribution, and an unaudited net asset value at July 31, 2007 of $26.56 per share. At December 19, 2007, the unaudited net asset value was $25.71 per share, unadjusted for the shareholder distribution.

QUARTERLY ACTIVITY

During the quarter, Small-Cap Value established four new positions, added to 10 of its 75 existing positions, eliminated five positions and reduced its holdings in 12 companies. At October 31, 2007, Small-Cap Value held positions in 74 common stocks, the top 10 positions of which accounted for approximately 31% of the Fund's net assets.

Number of Shares or Units	New Positions Acquired
308,400 shares	Ceridian Corp. Common Stock ("Ceridian Common")
283,843 shares	Nuveen Investments Common Stock ("Nuveen Common")
1,903,315 shares	Pioneer Drilling Co. Common Stock ("Pioneer Common")
7,542,000 shares	PYI Corp. Ltd. Common Stock ("PYI Corp. Common")
	Increases in Existing Positions
75,000 shares	Alexander & Baldwin, Inc. Common Stock ("Alex Common")
55,788 shares	Cross Country Healthcare Inc. Common Stock ("Cross Country Common")
547,651 shares	Encore Wire Corp., Common Stock ("Wire Common")
10,000 shares	Herley Industries, Inc. Common Stock ("Herley Common")
366,055 shares	K-Swiss, Inc. Class A Common Stock ("Swiss Common")
275,000 shares	Lexmark International, Inc. Common Stock ("Lexmark Common")
1,048 shares	National Western Life Insurance Co. Class A Common Stock ("Western Common")
193,800 shares	St. Mary Land and Exploration Co. Common Stock ("St. Mary Common")
657,800 units	TimberWest Forest Corp. Units ("TimberWest Units")
55,085 shares	Westlake Chemical Corp. Common Stock ("Westlake Common")
	Positions Reduced
200,100 shares	Agrium, Inc. Common Stock ("Agrium 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, 2007: Pogo Producing Co., 4.09%; Brookfield Asset Management, 3.82%; Cimarex Energy Co., 3.75%; St. Mary Land and Exploration Co., 3.40%; Sapporo Holdings, Ltd., 3.39%; Comstock Resources, Inc., 2.71%; Parco Co., Ltd., 2.45%; TimberWest Forest Corp., 2.40%; Saskatchewan Wheat Pool, 2.29; and Whiting Petroleum Corp., 2.22%.

Number of Shares	Positions Reduced (continued)
44,484 shares	Alamo Group, Inc. Common Stock (“Alamo Common”)
9,700 shares	Borland Software Corp. Common Stock (“Borland Common”)
70,508 shares	Deltic Timber Corp. Common Stock (“Deltic Common”)
97,989 shares	Electro Scientific Industries, Inc. Common Stock (“ESI Common”)
997,683 shares	GSI Group, Inc. Common Stock (“GSI Common”)
112,866 shares	JAKKS Pacific Inc. Common Stock (“JAKKS Common”)
150,000 shares	Leucadia National Corp. Common Stock (“Leucadia Common”)
100,000 shares	Pogo Producing Co. Common Stock (“Pogo Common”)
200,000 shares	The St. Joe Company Common Stock (“Joe Common”)
228,373 shares	Stanley Furniture Co. Inc. Common Stock (“Stanley Common”)
75,000 shares	Whiting Petroleum Co. Common Stock (“Whiting Common”)
	Positions Eliminated
474,613 shares	Kearny Financial Corp. Common Stock (“Kearny Common”)
1,746,850 shares	Leapfrog Enterprises, Inc. Common Stock (“Leapfrog Common”)
451,439 shares	Magma Design Automation, Inc. Common Stock (“Magma Common”)
290,110 shares	Rockville Financial Inc., Common Stock (“Rockville Common”)
327,339 shares	Skyline Corp. Common Stock (“Skyline Common”)

QUARTERLY ACTIVITY

Both Ceridian Common and Nuveen Common became part of the Fund’s endeavor to build a small “basket” of merger arbitrage opportunities created by the severe upheaval and general pessimism that gripped the debt and equity markets in recent periods. Arbitrage spreads[1] widened to unprecedented levels during the latter part of the year, as both leveraged arbitrage funds and high yield lenders panicked, fleeing almost any and all securities related to merger deals. Of the dozen or so deals considered by Fund management, only a handful made it to our “short list.” These investments largely followed the template employed by the Fund in prior successful merger arbitrage investments over the years, including in Advanced Fiber Communications (Tellabs), Alamo Group (busted LBO), Andrx Corporation (Watson Pharmaceuticals), Equity Oil (Whiting Petroleum), GEAC Computer (LBO Group), Hollywood Entertainment (Movie Gallery), Instinet (Silver Lake) and Pogo Producing (Plains Exploration). In each case, we initiated small positions with the idea of expanding the Fund’s ownership on a longer-term basis were the deals to come apart and the stocks to decline. Both the Ceridian and Nuveen deals closed in November, providing the Fund with Internal Rates of Return approximating 55% and 30%, respectively.

Pioneer Common became another member of the Fund’s energy services sub-portfolio, a group of holdings that, at present, accounts for nearly 6% of Fund assets. Pioneer owns and operates 66 oil and gas drilling rigs in the Midcontinent region of the U.S., but has recently expanded internationally with two contracts in Colombia. Management appears to have done a good job of buying rigs, refurbishing them at its assembly yards in North Houston, and adding tangibly to the fleet’s economic value. As described in an earlier Shareholder Letter, the near-term outlook for land drilling in the lower 48 remains quite difficult, but Pioneer’s debt-free, cash-rich balance sheet ought to sustain the company should industry conditions deteriorate further. As evidenced by the Fund’s relatively large, multi-year exposure to energy-related equities, we remain generally optimistic about the longer-term outlook for the underlying commodities, and about the demand for related services both in the U.S. and abroad. (That said, the only certainty about energy

[1] The spread is the difference between the current market price and the proposed acquisition price.

markets is that they will continue to surprise nearly everyone!) Pioneer Common was acquired at a modest premium to GAAP book value, a seemingly reasonable discount to current asset replacement values, and equivalent to 7 times trailing (peak) earnings and 11 times to 12 times estimated earnings over the next one to two years.

Fund management sold down all or parts of various positions this quarter to realize losses in order to offset realized capital gains, to reduce or eliminate marginal holdings and to unload a few pieces of over-priced merchandise. Realized gains were unavoidable in a handful of cases where the Fund's holdings were cashed out in merger transactions. Year-to-date through October 31st, these included the Fund's holdings in American Power Conversion, Bandag, Sabre Group and Trammell Crow. Outcomes in these cases ranged from fair to excellent. As previously reported, during the year Fund management also said goodbye to the final piece of its spectacular Sears investment, an investment that contributed mightily to the realized gains distributed this year. The net result of this activity was a somewhat elevated level of distributions relative to prior periods (more detail about the estimated distribution in the last paragraph, below). While our preference is to avoid realizing taxable capital gains, the vast majority of this year's taxable distributions will be subject, for most U.S. taxpayers, to the relatively attractive 15% rate that applies to long-term holdings. (As a side note, to the extent future administrations seek to raise the rate on long-term capital gains, today's environment might be viewed as an attractive one in which to realize some long-held profits. At this point anyway, the odds would seem to be stacked against lower rates.)

"Many of the Fund's holdings are down 20% to 30% or more in just the past few months and now sit at very compelling levels relative to what Fund Management conservatively estimates are those companies' long-term business values. I believe that these changes have created some terrific buying opportunities."

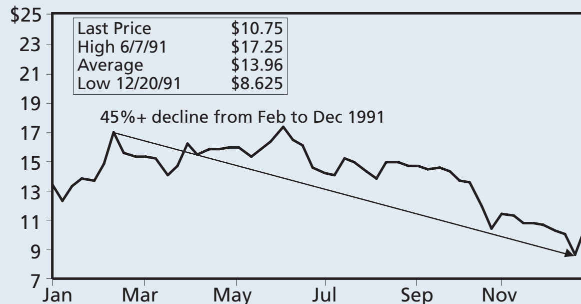
"It's in bad times when good deals are struck."

— Andre Oscar Wallenberg, founder Investor AB

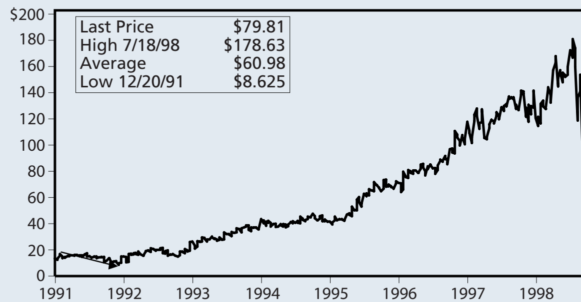
One of my favorite investment-related quotes comes from one of the founding members of Investor AB, Sweden's leading industrial holding company. It seems particularly germane to the current investment climate, and to the sometimes chaotic markets that have accompanied the recent equity and credit market crises. It should remind investors that true bargains won't be created without some pain along the way. With respect to the Small-Cap Value Fund, such seems to be the case today. Many of the Fund's holdings are down 20% to 30% or more in just the past few months and now sit at very compelling levels relative to what Fund Management conservatively estimates are those companies' long-term business values. I believe that these changes have created some terrific buying opportunities. However, with the compression in valuations, the Fund's absolute performance in 2007 has been well below desired levels. This "pause in performance" is precisely the kind of environment that augurs well for those investors with patience and a long-term investment horizon, as both the Fund's existing holdings and our inventory of prospective ideas remain quite attractive from a fundamental point of view. In the wake of Citigroup's recent Abu Dhabi-led junk financing, and in the context of investment pain (patience?), a friend passed along an interesting graphic that reminded me of the virtues of patience. The two panels below depict the development of Citicorp's shares at the time Prince Alwaleed announced his $590 million investment in February

1991 for 15% of Citicorp[2]. By year-end 1991, Citicorp's shares had declined more than 40% from their February highs. Any investor who followed Alwaleed and remained patient was richly rewarded, however, as Citi's shares peaked at $178 per share in July 1998, before Citi's acquisition by Travelers Group in October that year, implying a return of more than 10 times on the original investment[3].

CITICORP PERFORMANCE 1991



CITICORP PERFORMANCE 1991-1998



If nothing else, this case study illustrates that, while valuation matters a great deal, it is less important to "buy the bottom" than it is to find a business with attractive long-term fundamentals.

At Third Avenue, we will continue to invest as we always have, and always will, using our "safe and cheap*" philosophy, a philosophy that is centered around minimizing investment risk and balanced by a patient, long-term focus.

SHAREHOLDER DISTRIBUTION

On December 19, 2007, a distribution of approximately $2.72 per share was made to shareholders of record as of December 18, 2007. Of this amount, approximately $2.26 represents long-term capital gains; approximately $0.23 represents short-term capital gains, which would be taxed as ordinary income; and approximately $0.23 represents ordinary income. A portion of the amount representing ordinary income (including short-term capital gains) 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, 2007 will be issued by the Fund in the early part of 2008. Shareholders, as always, have the option of receiving distributions either in cash or in newly issued shares of Small-Cap Value Common Stock.

I look forward to writing you again in the New Year when we publish our First Quarter report dated January 31, 2008. 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

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[2] Alwaleed's original investment comprised both common shares and a convertible preferred stock.
[3] Assuming a purchase date of February 15, 1991 and excluding dividends and adjusted for splits and the Travelers merger, an investor in Citicorp shares would have a stake today worth approximately 13 times their original investment. Alwaleed had sold parts of his investment in the mid 1990s in order to remain below a 10% ownership threshold.
* "Safe" means the companies have strong finances, competent management, and an understandable business. "Cheap" means that we can buy the securities at significantly less than what a private buyer might pay for control of the business.

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" or "TAREX") report for the fiscal year ended October 31, 2007. This report marks the Fund's ninth full year of operation since its inception on September 17, 1998. At October 31, 2007, the audited net asset value attributable to the 82,735,662 shares outstanding was $35.47 per share. This compares with the Fund's unaudited net asset value of $32.78 per share at July 31, 2007, and an audited net asset value, adjusted for subsequent distributions to shareholders, of $32.82 per share at October 31, 2006. At December 19, 2007, the unaudited net asset value was $31.18 per share, unadjusted for the shareholder distribution.

QUARTERLY ACTIVITY

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

Number of Shares	New Positions Acquired
1,280,404 shares	Hammerson, plc Common Stock ("Hammerson Common")

Number of Shares	New Positions Acquired (continued)
750,000 shares	Mitsui Fudosan Co. Ltd. Common Stock ("Mitsui Common")
	Increases in Existing Positions
461,738 shares	Crystal River Capital, Inc. Common Stock ("Crystal River Common")
139,310 shares	Derwent London plc Common Stock ("Derwent Common")
107,141 shares	Eastgroup Properties, Inc. Common Stock ("Eastgroup Common")
1,000,000 shares	RAIT Financial Trust Common Stock("RAIT Common")
	Decreases in Existing Positions
2,435,116 shares	American Financial Realty Trust Common Stock ("American Financial Common")
9,500 shares	Consolidated Tomoka Land Co. Common Stock ("Consolidated 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, 2007: Forest City Enterprises, Inc., 12.64%; Brookfield Asset Management, 10.35%; Henderson Land Development Co., Ltd., 5.28%; Wharf Holdings Ltd., 5.16%; ProLogis, 4.93%; Vornado Realty Trust, 4.75%; Hang Lung Properties Ltd., 3.55%; The St. Joe Company, 3.54%; Wheelock & Co., Ltd., 3.52%; and British Land Company, 2.94%.

Number of Shares	Decreases in Existing Positions (continued)
621,800 shares	First Capital Realty, Inc. Common Stock ("First Capital Common")
14,967 shares	Forest City Enterprises, Inc. Common Stock ("Forest City Common")
3,698,000 shares	Henderson Land Development Co. Ltd. Common Stock ("Henderson Common")
1,379,000 shares	Liberty International plc Common Stock ("Liberty Common")
11,400 shares	One Liberty Properties, Inc. Common Stock ("One Liberty Common")
700,000 shares	ProLogis Common Stock ("ProLogis Common")
250,000 shares	PS Business Parks, Inc. Common Stock ("PS Common")
2,000,000 shares	The St. Joe Company Common Stock ("St. Joe Common")
1,909,363 shares	Unite Group plc Common Stock ("Unite Common")
	Positions Eliminated
642,148 shares	American Land Lease, Inc. Common Stock ("American Land Common")
5,921,000 shares	Hongkong Land Holdings Ltd. Common Stock ("Hongkong Land Common")
1,931,000 shares	Tai Cheung Holdings Ltd. Common Stock ("Tai Cheung Common")

DISCUSSION OF QUARTERLY ACTIVITY

During the quarter, the Fund experienced net redemptions of nearly $200 million, the majority of which occurred during August when market sentiment towards property and mortgage-related securities turned very negative as the result of the global credit crisis. Net redemptions resulted in the Fund being a net seller of securities at a time when there appeared to be substantial bargains in the common stocks of well-financed real estate companies. Notwithstanding the level of redemptions during the quarter, the Fund opportunistically added to several existing positions and established two new positions (Hammerson Common and Mitsui Common).

The Fund realized substantial long-term capital gains during the fiscal year primarily as the result of selling securities to generate liquidity for redemptions. Fund management has historically sought to minimize tax consequences for shareholders by keeping portfolio turnover to a minimum, timing sales to take advantage of long-term gain treatment whenever possible and, if practical, offsetting realized gains with losses. The Fund sold 2 million shares of St. Joe Common and 2.4 million shares of American Financial Common, taking tax losses, which partially offset realized gains. Subsequent to the end of the fiscal year, the Fund repurchased St. Joe Common at lower prices.

Hammerson is a U.K.-based REIT that develops, owns and manages retail and office properties in the United Kingdom, France and Germany. The company specializes in urban redevelopments that are difficult to plan and entitle, but offer substantial value-creation opportunities. The company has an excellent track record, and has developed strong relationships with city governments that provide access to multiple development projects. In addition to its existing portfolio of operating properties, Hammerson currently has six projects under construction and a future development pipeline of over twenty projects. Hammerson has a very strong financial position which should enable it to finance its future developments. Roughly half of the company's projects are held through joint ventures with institutional investors. Hammerson sells a stake in a high-quality asset, retains control and is entitled to earn advisory and management fees. Under U.K. REIT rules, if the company has held the property for three years after completion, sale proceeds can be reinvested in new projects instead of having to distribute the gains to shareholders. The Fund acquired Hammerson Common at a substantial discount to Fund management's conservative estimate of net asset value.

Mitsui Fudosan is a Tokyo-based, diversified real estate operating company, and one of the largest listed property companies in the world. The company has a long track record of successful, large-scale, urban developments in Tokyo. The company currently has eleven development or redevelopment projects in Tokyo. The projects include redevelopments of its aged properties located on legacy land holdings and ground-up developments in which it has partnered with a Japanese agency or company to gain access to scarce land positions. The company's commercial portfolio consists of 22 million square feet of office and retail properties, 85% of which are located in the Tokyo Metropolitan area. The office properties are primarily Class-A buildings and the retail properties are large-scale, urban shopping malls. The company owns one property in Manhattan – a 2.3 million square foot office building on Avenue of the Americas (formerly the Exxon Building). The company is one of the largest residential developers in Tokyo. It also owns and operates a hotel portfolio and Japan's leading residential brokerage company. Additionally, the company manages over US$18 billion in property funds, including a J-REIT which serves as an exit vehicle for the company's non-core office properties. The company has plans to list two additional J-REITs (rental housing and retail) as part of its strategy to increase funds under management to US$26 billion by 2009. Mitsui Fudosan is extremely well-financed and is able to finance its development activities with retained cash flow (approximately US$1 billion per year in free cash flow from its office and retail portfolio). The Fund acquired Mitsui Common at a substantial discount to Fund management's estimate of net asset value based on "in-place" rents (i.e., no upside valuation given for embedded rent growth considering that current market rents are substantially higher than actual rents) and conservative estimates of development profits.

In addition to the tax loss sales noted above, the Fund reduced several positions in order to provide liquidity to meet redemption requests. The sales generally resulted in realized capital gains. The Fund eliminated three small positions during the quarter – American Land Common, Hongkong Land Common and Tai Cheung Common. These positions had appreciated over their holding period, but due to price appreciation and/or the size of the companies, it became unlikely that the Fund would ever acquire a more meaningful position. To a limited extent, the Fund took advantage of lower market prices and increased its holdings in four securities.

A FUND WITH NO BORDERS

TAREX's objective of long-term capital appreciation is achieved by investing primarily in the common stocks of real estate and real estate-related companies that have strong financial positions, capable and incentivized managements, responsible control groups, comprehensive financial transparency, and equity securities priced at a discount to intrinsic value. For the better part of TAREX's nine-year existence, the portfolio has been heavily weighted in U.S. and Canadian investments. Over the past three years, the portfolio has become much more international because Fund management has been finding suitable investments in the United Kingdom, Hong Kong and Japan that meet the Fund's "safe and cheap*" criteria. Fund management's approach is to "go anywhere" to find suitable investments, but TAREX has no specific mandate regarding geographic diversification.

As of October 31, 2007, the Fund's geographic allocation was as follows:

United States	40.8%
Hong Kong	17.7%
Canada	13.7%
United Kingdom	9.9%
Japan	8.7%
Short-term investments and other assets	9.2%

* "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.

For the fiscal year ended October 31, 2007, the Fund generated a return of 7.68%. Interestingly, the vast majority of the Fund's return was related to its Hong Kong investments which offset the losses related to its U.S. investments. The following attribution analysis highlights how each geographic portion of the portfolio performed on a stand-alone basis, its contribution to the Fund's overall return and comparison to the respective country's real estate securities index.

	Portfolio Return[1]	Return Contribution[2]	Index
United States	-0.4%	-1.96%	-1.2%[3]
Hong Kong	84.5%	7.34%	82.9%[4]
Canada	15.7%	2.61%	6.7%[5]
United Kingdom	-10.6%	-0.73%	-19.6%[6]
Japan	20.8%	0.42%	5.9%[7]
TOTAL RETURN		7.68%	

The case for investing in international real estate securities has been propagated by financial advisors and investment professionals as a means to add diversification to a portfolio – the theory being that diversification reduces risk. For those investors without specific knowledge about the companies represented in their portfolio or the markets in which those companies conduct business, diversification may be a necessary evil. Investor demand for exposure to non-U.S. real estate over the past five years has spawned a proliferation of mutual funds labeled "global" or "international" real estate funds. Investors can choose funds that invest exclusively in United States securities, Asian securities, European securities or various combinations of each. As illustrated by the one-year returns of the various indices noted above, investor returns could have been drastically different depending upon which region or regions were chosen. For example, an investment in the Hang Seng Composite Property & Construction Index (Hong Kong) would have generated a one-year total return of 82.9% while an investment in the FTSE 350 Real Estate Index (United Kingdom) would have generated a negative return of 19.6%. For those investors with knowledge and conviction about global property markets, the securities available in the global markets and the risks involved in owning foreign securities, it would seem they are better off making their own allocation decisions rather than entrusting those decisions to a financial advisor. If, for example, a knowledgeable investor determines that his real estate securities allocation should be 50% United States, 25% Asia-Pacific and 25% Europe, he could either (a) analyze and invest in individual stocks in each region; (b) invest in several mutual funds that specifically invest in each region; (c) invest in exchange traded funds (if available) that hold securities with the intention of replicating an index return; or (d) some combination of each. An investor capable of analyzing global securities, executing trades and structuring a common stock portfolio of high-quality companies should fare better in the long-run than investors who may arbitrarily allocate their real estate investments to international, global or domestic real estate funds. Most individual investors and/or their financial advisors do not have the time, inclination or necessary training to determine appropriate geographic allocations for their real estate investments (not to mention picking individual stocks).

TAREX's expansion to foreign markets was the direct result of our ongoing efforts to find suitable investments in real estate companies that satisfy our strict investment criteria – not a recognition that TAREX "needs" an

[1] Portfolio Return represents an approximation of the returns generated during the 12 months ended October 31, 2007 for securities owned by the Fund as if the securities were grouped "by country" and each group represented a distinct portfolio.
[2] Return Contribution is an approximation of the actual returns for the Fund during the 12 months ended October 31, 2007 attributed to securities grouped by country.
[3] Dow Jones Wilshire Real Estate Securities Total Return Index (United States) from 10/31/06 to 10/31/07.
[4] Hang Seng Composite Property & Construction Index (Hong Kong) from 10/31/06 to 10/31/07
[5] Real Estate GICS Industry Group Index (Canada) from 10/31/06 to 10/31/07
[6] FTSE 350 Real Estate Index (United Kingdom) from 10/31/06 to 10/31/07
[7] TOPIX Real Estate Index (Japan) from 10/31/06 to 10/31/07

international allocation or greater diversification. On the contrary, Fund management believes it is unnecessary to have a specific percentage of TAREX's assets allocated to international securities. Furthermore, diversification is only a surrogate – and often a poor surrogate – for knowledge, price consciousness and control. Fund management analyzes individual companies using a fundamental, bottom-up approach and attempts to build a concentrated portfolio of securities that offers solid downside risk protection (downside risk being permanent impairment of capital as opposed to market volatility) along with the greatest possibility of long-term capital appreciation. We pick stocks, not markets. While regional and local property fundamentals are important to consider when analyzing a real estate company, Fund management's investment decisions are primarily based on the merits of each individual security, not its geographic location. For example, real estate development in mainland China may be the land of opportunity for the foreseeable future, but there is no certainty that investors in common stocks of publicly-traded Chinese development companies will have positive returns. In fact, based on the lofty prices attained in recent IPOs of Chinese development companies, positive long-term returns on these stocks seem like a long shot.

> **"We pick stocks, not markets. While regional and local property fundamentals are important to consider when analyzing a real estate company, Fund management's investment decisions are primarily based on the merits of each individual security, not its geographic location."**

The increase in foreign investments should not be viewed as a change in TAREX's mandate. While TAREX can invest without considering geographic borders, Fund management's goal is to invest the Fund's assets in real estate securities that will provide the best long-term returns for shareholders. This entails minimizing investment risk by investing only in well-financed companies and refusing to pay up for what is currently popular in the market.

SHAREHOLDER DISTRIBUTION

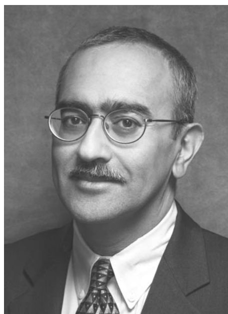
On December 19, 2007, a distribution of approximately $3.85 per share was made to shareholders of record as of December 18, 2007. Of this amount, approximately $3.09 represents long-term capital gains; approximately $0.17 represents short-term capital gains, which would be taxed as ordinary income; and approximately $0.60 represents ordinary income. A portion of the amount representing ordinary income (including short-term capital gains) 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, 2007 will be issued by the Fund in the early part of 2008. 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, 2008. 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, 2007, the audited net asset value attributable to the 93,109,562 common shares outstanding of the Third Avenue International Value Fund (the "Fund") was $25.01 per share, compared with the Fund's audited net asset value at October 31, 2006 of $20.95 per share, and adjusted for a subsequent distribution and an unaudited net asset value at July 31, 2007 of $24.86 per share. At December 19, 2007, the unaudited net asset value was $22.11 per share, unadjusted for the shareholder distribution.

QUARTERLY ACTIVITY:

In the most recent quarter of operations, the Fund established new positions in the common stocks of three companies and added to positions in the common stocks of nine companies, while reducing positions in the common stocks of 10 companies and eliminating three others.

Number of Shares	New Positions Acquired
4,120,095 shares	CSR Ltd. Common Stock ("CSR Common")
771,224 shares	Montpelier Re Holdings Ltd. Common Stock ("Montpelier Common")
853,742 shares	Newmont Mining Corp. Common Stock ("Newmont Common")

Number of Shares or Units	Increases in Existing Positions
283,037 shares	ABB Grain Ltd. Common Stock ("ABB Common")
106,500 shares	Asatsu-DK Inc. Common Stock ("Asatsu Common")
1,002,700 shares	BW Gas ASA Common Stock ("BW Gas Common")
2,474,171 shares	Capital Securities Corp. Common Stock ("Capital Common")
298,100 shares	Daibiru Corporation Common Stock ("Daibiru Common")
58,500 units	Fording Canadian Coal Trust Units ("Fording Units")
1,280,790 shares	President Securities Corp. Common Stock ("President Common")
1,694,000 shares	Seino Holdings Co., Ltd. Common Stock ("Seino Common")
1,426,000 shares	Sompo Japan Insurance Inc. Common Stock ("Sompo Common")
	Positions Reduced
286,050 shares	Aiful Corp. Common Stock ("Aiful Common")
1,195,000 shares	Aker Kvaerner ASA Common Stock ("Aker Common")
699,850 units	Canfor Pulp Income Fund Units ("Canfor Pulp Units")
186,500 shares	Farstad Shipping ASA Common Stock ("Farstad Common")
560,000 shares	Golar LNG Ltd. Common Stock ("Golar Common")
1,626,000 shares	Liu Chong Hing Investment Ltd. Common Stock ("LCHI Common")
2,799,600 shares	Saskatchewan Wheat Pool Inc. Common Stock ("Pool Common")

* Portfolio holdings are subject to change without notice. The following is a list of Third Avenue International Value Fund's 10 largest issuers, and the percentage of the total net assets each represented, as of October 31, 2007: Saskatchewan Wheat Pool, 7.11%; GuoccoLeisure Ltd. (formerly known as BIL International, Ltd.), 4.25%; Nippon Sheet Glass Co., Ltd., 3.56%; Hutchison Whampoa, 3.56%; Yuanta Financial Holding Co., Ltd., 3.40%; Guocco Group, Ltd., 3.05%; ABB Grain, Ltd., 3.24%; Brit Insurance Holdings PLC, 2.82%; Nationale A Portefeuille, 2.77%; and LG Corp., 2.66%.

Number of Shares	Positions Reduced (continued)
70,110 shares	United International Enterprises Ltd. Common Stock ("UIE Common")
9,020,000 shares	UOB-Kay Hian Holdings Ltd. Common Stock ("UOB Common")
3,984,000 shares	Vitasoy International Holdings Ltd. Common Stock ("Vitasoy Common")
	Positions Eliminated
64,610 shares	HAL Trust Common Stock ("HAL Common")
8,088,955 shares	Telecom Corp. of New Zealand Ltd. Common Stock ("Telecom NZ Common")
18,671,113 shares	Toll NZ Ltd. Common Stock ("Toll NZ Common")

REVIEW OF QUARTERLY ACTIVITY

CSR Ltd. ("CSR") is an Australian conglomerate with a collection of disparate businesses operating in building products, glass, aluminum, property development, and sugar. The company has dominant positions in Australia in most of its operations. It is the only domestic producer of float glass, by far the largest sugar miller, the number one or number two producer in most of its building products lines, and it has a stake in one of the lowest cost aluminum smelters in the world.

There appears to be considerable resource conversion opportunities embedded with CSR, given the disparate nature of its business activities. The company is now converting a number of old brick and tile manufacturing sites on attractive locations into residential and industrial property developments. In the glass business, it is in the process of merging recently acquired manufacturing and processing businesses with the expectation of realizing substantial cost synergies. The company is reviewing its minority investment in Australia's largest (and one of the world's lowest-cost) aluminum smelter in response to the acquisition of Alcan, the smelter's operator, by Rio Tinto (itself now being pursued by BHP). And finally, the upcoming deregulation of Queensland's sugar industry will open possibilities for consolidation of the sugar supply chain in Australia, the second largest sugar exporter in the world.

We were able to acquire CSR shares at a valuation that is attractive in relation to its Net Asset Value ("NAV"), in light of a relatively subdued earnings outlook for a number of the company's businesses, especially building products and sugar.

Montpelier Re Holdings, Ltd. ("Montpelier Re") is a Bermuda-based catastrophe reinsurance company, which came into existence in December 2001, in the aftermath of the World Trade Center attacks on September 11th of that year. Montpelier Re writes property catastrophe reinsurance, which typically provides protection against losses from natural or man-made disasters such as earthquakes, hurricanes, floods and fires, as well as other specialty reinsurance products worldwide. In 2005, the combined impact of Hurricanes Katrina, Rita, and Wilma inflicted a severe underwriting loss on Montpelier Re, necessitating an equity raising and the separation of its retrocession underwriting operation, which provides reinsurance to reinsurers, into a separately capitalized entity, so as to progressively reduce the company's exposure to big ticket catastrophe-exposed losses.

In June 2007, Montpelier Re announced that it had received approval from Lloyd's for the commencement of operations of Montpelier Syndicate 5151, which intends to write primarily short-tail lines, mainly property insurance and reinsurance, as well as engineering and specialty casualty classes sourced from markets in London, Continental Europe, and the U.S. Underwriting at Lloyd's provides some advantages, namely the ability to access a more ratings-sensitive client (Lloyd's paper is rated A, Excellent by A.M. Best and A+, Strong, by Standard & Poor's), as well as the potential to increase the geographic spread of the business, given Lloyd's has licenses to operate in a large number of countries.

With the exception of 2005, Montpelier Re's underwriting results have historically been sound, and Fund management has very high regard for the management team, viewing them as careful stewards of investors' capital. Shares of Montpelier Re were purchased at prices which we believe understate its value as a going concern, as it imputes little to no value to the company's operational infrastructure, underwriting expertise, or the membership at Lloyd's.

Newmont Mining ("Newmont"), one of the world's leading gold producers, has suffered from rising costs in recent years. The global mining boom put pressure on prices of mining equipment and spare parts, caused shortages of skilled personnel, and escalated costs of fuel and energy. Base metal

prices have outpaced the rise in costs, allowing base metal mining companies to enjoy high profits; but gold prices, while rising from their troughs, have not kept pace. Should gold prices catch up with mining costs, or mining cost pressures abate, Newmont's profitability would materially improve.

Additionally, Newmont owns a portfolio of royalties which has recently been monetized, along with a portfolio of equity investments, including a large stake in Canadian Oil Sands Trust. Together, the combined value of the cash proceeds and portfolio exceeds Newmont's debt, leaving it with a strong financial position. We bought Newmont Common at a discount to our conservative estimate of NAV.

The principal sale this quarter was that of Toll NZ Common, which we tendered to an offer by the major shareholder, an event foreshadowed in the previous quarter's letter. The second elimination from the portfolio was that of Telecom NZ Common. This sale was prompted by a progressive deterioration of the regulatory environment for the company, which appeared to be increasingly motivated by non-economic goals, the attainment of which, we believe, would not have been in shareholders' best interests.

The environment for consumer finance companies in Japan has continued to deteriorate. A cornerstone of our investment thesis behind the investment in Aiful Corp. ("Aiful") was the continued availability of financing for the larger, better capitalized consumer finance companies, while the smaller undercapitalized players would progressively face capital constraints and would have to curtail or close operations, the benefits of which would inure to the larger players. The latter portion of the scenario continues to unfold with the bankruptcy of one of the larger second-tier companies, when its banks cancelled their credit lines to the company, irreversibly hobbling it. Our concerns about Aiful were heightened when the company disclosed that it would have been in technical breach of covenants on some of its debt, had it not changed the method of calculating its reserves for future losses. To date, Aiful has been reluctant to strengthen its balance sheet by raising fresh equity because of the founder's unwillingness to have his stake diluted. Accordingly, we believe that there is a reasonable prospect for deterioration in the company's financial position to levels which would no longer meet our safety requirement. This development led us to sell our holdings in Aiful Common at a loss.

SOME THOUGHTS ON UNCERTAINTY

In its quest for securities which are valued at meaningful discounts to their estimated NAVs, there are numerous occasions when the Fund has purchased securities which, to a casual observer, might appear to be fraught with considerable uncertainty. Uncertainty, in this context, refers to the fact that the exact path of the company's, or industry's fortunes, is simply unknowable, or unpredictable. An example is the Fund's purchase of shares in companies operating in the offshore oil service industry in 2003, when some believed that there was little or no prospect for the exploration and development of hydrocarbons in the North Sea, and ignored the ability of these companies to redeploy their assets to other hydrocarbon provinces if the outlook in the North Sea remained permanently depressed. While such redeployment would require an expense outlay of uncertain timing and magnitude, it would eventually restore these companies' profitability. We were willing to take a long-term view of the companies' prospects, and our patience was rewarded with favorable investment returns.

Another example might be the purchase of shares of Skandia Forsakrings AB, when there was a dark cloud hanging over the company following its misadventures in the U.S. insurance market, and in Sweden, on the egregious compensation of some of its executives, which in the short term sent its sales and market share plummeting in one of its most important markets. Both of these issues were eminently fixable, by disposal of the U.S. business and by dismissal of the offending executives. It was unclear how soon the sales would recover, but given Skandia's distribution and marketing strengths, the eventual recovery was not in great doubt. Once again, our understanding of the company's businesses and long-term prospects gave us comfort to withstand short-term market price fluctuations.

It has often been the case that such short-term uncertainty has been at least one of the factors contributing to securities being available at a discount. As a result of one or more of the unappetizing characteristics of such investments, they have often been ignored or avoided by other investors, resulting in a valuation attractive to the Fund. Accordingly, this would suggest that there might be some merit in entering an investment before such uncertainty, and presumably by implication, the discount to NAV, are removed.

The uncertainty associated with such situations is often perceived as "risk" by investors, and a reason to avoid such investments. We do not automatically view "uncertainty" and "risk" as synonymous. Uncertainty implies riskiness, no more than a lower level of uncertainty implies an absence of risk. In any investment there is always some degree of uncertainty about the company's prospects, stemming from the inherent unpredictability of the future. Companies whose valuations tend to be unusually attractive from the Fund's perspective are often experiencing industry or company-specific difficulties, which Fund management views as transitory or surmountable (with the passage of time). However, for many with shorter time horizons, such uncertainty is often magnified and is equated to risk. At Third Avenue, we believe that the word "risk" should always be preceded by an adjective. Although we are willing to accept market risk, *i.e.,* fluctuations in the market price of a security, we strive to identify and avoid investment risks, *i.e.,* possible permanent impairments of business values, bad business models, weak balance sheets, short-sighted management teams, and companies subject to severe competition or government meddling. We are able to confidently and comfortably invest in companies facing short-term uncertainty, by restricting our investments to companies which we consider to be safe, as manifested by a low level of investment risk.

"Companies whose valuations tend to be unusually attractive from the Fund's perspective are often experiencing industry or company-specific difficulties, which Fund management views as transitory or surmountable (with the passage of time)."

Investment risk, as viewed by Fund management, is anything internal or external to the investee company that has the potential to impair or in any way permanently diminish the long-term value of the company's business, its operations or its ability to create value. These would be the types of risks that the Fund endeavors to identify, assess and avoid. Examples of risk that the Fund strives to avoid might include:

- Companies operating with significant currency mismatches between assets and liabilities; particularly in operationally leveraged businesses, such as banks, where an adverse currency move can cause much damage to companies with such exposures.
- Risky business models. For example, a business model where growth occurs by acquisition and is reliant upon successive capital raisings would be unattractive to Fund management, given its dependence upon capricious capital markets which might preclude successful execution of the company's strategy.
- Unusual political risks. Assessing political risk, which while an imponderable is nonetheless an integral part of international investing and can have a material impact upon investee companies' performances. As a result, Fund management tends to eschew investing in certain jurisdictions where we lack an understanding of, or comfort with, the political environment and how it might affect the Fund's investment. That said, change in the political landscape can strike in the least expected locales; witness the recent overhaul of the regulatory landscape for the telecom industry in New Zealand, which had meaningful and adverse implications for the incumbent.

These notions of risk described above are in distinction to the uncertainty that might attach to the investee company's business prospects. The uncertainty surrounding short-term business prospects can often be at least partially dealt with by appropriately adjusting (upward) the discount to NAV required for investment, *and* by requiring the absence of any identifiable factors which might result in a meaningful probability of impairment of the longer-term value of the business. That said, it is necessary to accept uncertainty as a part of investment, because in any investment there will be many imponderables and unknowns, few of which can be modeled. For example, the exact form and timing of the solution to a company's woes which have depressed a company's valuation are usually unknown at the time of investment, as would be the form and timing of industry-wide adjustments (such as capacity reduction, consolidation or bankruptcy among competitors) that might potentially change industry conditions for the better. Equally uncertain is the timing and manner of value realization—be it via

market recognition of business value or some form of resource conversion. The Fund's investments, which possess both characteristics of safety (as manifested by the relative absence of risks of the sort noted above), and cheapness, allow for coexistence with these sorts of uncertainties.

REOPENING OF THE FUND TO NEW INVESTORS

The Fund reopened to new investors on December 20, 2007. Fund management decided to close the Fund in July 2005, in order to responsibly manage the large cash position that resulted from unprecedented cash inflows during the first six months of 2005. We remained extremely deliberate and careful in how we invested the excess cash in the portfolio during the period that the Fund was closed, and have now reached an appropriate cash level.

Since the Fund closed two years ago, we have expanded our investment team and increased the number of analysts dedicated to researching foreign securities. Third Avenue Management has also recently opened an office in Singapore to further enhance our global research capabilities.

The whiff of panic currently blowing through the financial markets has the potential to present tremendous buying opportunities. We increasingly see a number of promising investment opportunities ahead of us today, but we do not wish to prematurely sell existing positions until they reach their full valuations. Accordingly, we feel it is appropriate to reopen the Fund at this time, to take advantage of the market environment.

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	15.96%
Japan	15.73
Hong Kong	8.94
Taiwan	7.64
Singapore	7.52
Norway	5.40
Australia	3.80
United Kingdom	2.82
Belgium	2.77
South Korea	2.66
Chile	2.51
Poland	1.90
United States	1.86
Denmark	1.82
New Zealand	1.35
Bermuda	1.22
Thailand	1.02
France	0.90
Switzerland	0.35
Equities-total	86.17
Cash & Other	13.83
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 between countries (or sectors) based upon an overarching macroeconomic view or index-related considerations.

SHAREHOLDER DISTRIBUTION

On December 19, 2007, a distribution of approximately \$3.84 per share was made to shareholders of record on December 18, 2007. Of this amount, \$3.06 represents long-term capital gains; and approximately \$0.78 represents ordinary income. A portion of the amount representing ordinary income 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, 2007 will be issued by the Fund in the early part of 2008. Stockholders, as always, have the option of receiving distributions in either cash or newly issued shares of the Fund's Common Stock.

I will write you again when the report for the period to end January 31, 2008 is issued. Best wishes for a happy and prosperous New Year.

Sincerely,

Amit Wadhwaney
Portfolio Manager,
Third Avenue International Value Fund

BOARD OF TRUSTEES

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Joseph J. Reardon — Chief Compliance Officer

TRANSFER AGENT

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