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, 2008

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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 the 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 August 11, 2008.

Third Avenue Value Fund

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

Dear Fellow Shareholders:

At July 31, 2008, the unaudited net asset value attributed to the 171,610,637 shares outstanding of the Third Avenue Value Fund ("TAVF", "Third Avenue", or the "Fund") was $49.46 per share. This compares with an unaudited net asset value of $56.37 per share at April 30, 2008; and an unaudited net asset value of $60.86 per share at July 31, 2007, as adjusted for a subsequent distribution to shareholders. At August 11, 2008, the unaudited net asset value was $49.56 per share.

A key dynamic during the quarter revolved around the redemption by shareholders of 9,946,559 shares of TAVF Common. This required the payment by the Fund of almost $500 million. The Fund maintained liquidity by the sale of a number of non-core securities. At July 31, Fund cash holdings accounted for around $719 million, about 8.5% of assets. It comes as no shock that TAVF is experiencing redemptions during periods when Third Avenue's performance is poor, compared with the mutual fund universe. The same thing happened in 1999 and, to some extent, 2002. Yet, for the reasons cited in other parts of this letter, I remain especially enthusiastic about the long-term prospects for TAVF. Distress securities seem to be trading at ultra attractive prices. Discounts have widened appreciably for the common stocks of very well-capitalized companies where the common stocks trade at meaningful discounts from readily ascertainable net asset values ("NAVs"); and where the prospects appear good that over the next five years, such NAVs will increase by not less than 10% per annum compounded. Admittedly, near-term outlooks are generally poor. But, TAVF focuses not on the near-term outlook, but on buying what is "safe and cheap"†. I have the unique perspective of being a distressed investor for many decades, and safe and cheap on a long-term basis seems to be about as attractive as it was in the 1970s.

During the recent meltdown in the price of TAVF shares, I purchased an additional $1,500,000 of TAVF shares, and Ian Lapey, my Senior Analyst who helps me manage Third Avenue Value Fund, purchased another $200,000 of Fund shares. My wife and I, and accounts in which we have beneficial interests, own over 1,500,000 shares of TAVF. You may lose money on your Third Avenue Value Fund investment from here on out; but, if so, it will be because Ian and I are stupid. It won't be because we don't maintain the strongest possible communities of interest with our fellow Fund shareholders.

QUARTERLY ACTIVITY

Principal activities during the quarter were as follows:

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

* 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, 2008: Cheung Kong Holdings, 8.87%; Henderson Land Development Co., Ltd., 8.68%; Toyota Industries Corp., 6.27%; Posco (ADR), 5.24%; Nabors Industries, Ltd., 4.33%; Brookfield Asset Management, 3.96%; The St. Joe Company, 3.06%; Covanta Holding Corp., 2.92%; Wheelock & Co., Ltd., 2.90%; and Forest City Enterprises, 2.70%.

Principal Amount or Number of Shares	New Position Acquired
10,000,000 shares	Sycamore Networks Common Stock ("Sycamore Common")
	Positions Increased
$35,527,000 and 30,000,000 euros	GMAC Senior Unsecured 5.375%–7.75% Notes due 2011 ("GMAC Senior Unsecureds")
$137,555,000	MBIA Insurance Corp. 14% Surplus Notes ("MBIA Insurance Surplus Notes")
18,000,000 shares	Ambac Financial Group Common Stock ("Ambac Common")
100,800 shares	Forest City Enterprises Class A Common Stock ("Forest City Common")
500,000 shares	MBIA Common Stock ("MBIA Common")
	Positions Decreased
$26,133,000	Standard Pacific Senior Unsecured Notes – Various Maturities ("Standard Pacific Senior Unsecureds")
2,332,000 shares	Henderson Investment, Ltd. Common Stock ("Henderson Investment Common")
200 shares	Homefed Corp. Common Stock ("Homefed Common")
	Positions Eliminated
9,049,100 shares	Aioi Insurance Co., Ltd. Common Stock ("Aioi Common")
2,429,960 shares	Alliance Data Systems Common Stock ("ADS Common")
1,000,000 shares	Daiichi Sankyo Co. Common Stock ("Daiichi Common")
337,082 shares	Fair Isaac Corp. Common Stock ("Fair Isaac Common")
3,218,442 shares	Mitsui Sumitomo Insurance Common Stock ("Mitsui Sumitomo Common")
86,192 shares	Pharmaceutical Product Development Common Stock ("PPDI Common")
1,769,878 shares	Phoenix Companies Inc. Common Stock ("Phoenix Companies Common")

Number of Shares	Positions Eliminated
4,310,560 shares	Sompo Japan Insurance Common Stock ("Sompo Common")
27,945 shares	White Mountains Insurance Common Stock ("White Mountains Common")

Sycamore Networks is a leading telecommunications equipment manufacturer. The Fund acquired Sycamore Common at prices close to equal to the cash on the company's balance sheet, net of liabilities. In other words, the going-concern came almost for free. Forest City Enterprises is a leading U.S.-based investment builder. A good discussion of Forest City and Forest City Common Stock is contained in this booklet in the Third Avenue Real Estate Value Fund shareholder letter.

GMAC Senior Unsecureds maturing in three years and MBIA Surplus Notes are performing debt, albeit distressed securities. Fund management believes that the odds strongly favor that each security will remain performing until maturity or call. During the quarter, TAVF acquired its positions at prices based on yields to maturity or yields to call ranging from 24% to 40%. In the case of MBIA Insurance Surplus Notes, the average current yield was around 30%.

Both Ambac and MBIA are distressed securities because there clearly seems to have been a permanent impairment of their businesses as monoline insurers providing AAA wraps to municipalities and financial structured instruments. Both Ambac and MBIA have lost their AAA credit ratings. Yet, in effective run-off, it seems likely that the companies will generate large amounts of cash and large amounts of favorable tax attributes, even assuming a reasonable worst case basis where claims prove to be two or three times larger than what the companies are presently reserving for. One of the most favorable characteristics of insurance companies (such as Ambac and MBIA) is the relative ease of exit from present activities, combined with the ability to employ resources elsewhere. Both Ambac and MBIA have claimed that they intend to reenter the monoline insurance businesses as AAA providers of wraps for municipal bond issuers. Whether such businesses can be rebuilt remains an open question.

In a most meaningful way, Ambac and MBIA remind me a lot of one of Third Avenue's most successful investments – Mission Insurance Group. Mission's name has now been changed to Covanta Holding Corporation, which was acquired out of Chapter 11 in 2004. Insurance is a minor Covanta activity. Its main area of operations is the creation of energy from waste. Since March 2004, Covanta's stock price has risen over 540%, 24% of which has been over the past 12 months. The prices for the acquisitions of Ambac Common and MBIA Common during the quarter were less than 30% of Fund management's estimate of reasonable worst case NAVs, assuming they remain going concerns.

None of the securities sales during the quarter were made for investment reasons; they were all made for portfolio reasons, so that the Fund could maintain an adequate cash cushion.

Almost 80% of the Fund's portfolio is invested in eight different areas and, as a group, constitute TAVF's core holdings. These are as follows:

AREAS OF INVESTMENT (common stocks unless otherwise noted)	PERCENT OF FUND NAV, AS OF JULY 31, 2008
Hong Kong Real Estate and Private Holding Companies, each of which have a major presence in Mainland China (9 issuers)	28.1%
Japanese Issuers • Class A Office Building Real Estate (2 issuers) (4.4%) • Tokio Marine (Insurance) (2.3%) • Toyota Industries (6.3%)	13.0%
Western Hemisphere– Real Estate and Private Equity (9 issuers)	11.3%
Energy (4 issuers)	7.4%
Distress Securities • Performing Loans (3.0%) • Monoline Insurers, Mortgage Insurers and Asset-Based Lenders (3.2%)	6.2%
Fund Management and Related Financial Institutions (4 issuers)	5.4%
Korean Steel Mills with presence in India (1 issuer)	5.2%
European Private Equity (3 issuers)	3.1%

Except for the distressed securities area, each investment is in the common stock of an extremely well-capitalized company where the common stock was acquired by TAVF at prices that in our view represent a meaningful discount from readily ascertainable NAV. Further, in each area, TAVF Management believes that the issuer has, at least, pretty good prospects of growing that NAV over the next five years by not less than 10% per annum compounded. Fund Management is dedicating considerable time and effort to focusing on this aspect of our analysis.

As an example, if there is any group where Fund Management feels strongly that the probabilities are that NAV over the next five years will increase by more than 10% per annum compounded, it would be the Hong Kong issuers. This would be part and parcel of the expected continued growth of Mainland China. There are investment risks, particularly political risks and a relative absence of securities law protection. However, in each case, we are invested alongside billionaire controlling families.

The Japanese economy is moribund and seems likely to continue to be so. Toyota Industries ("Industries") is a way of buying into Toyota Motor, an international company, at around a 45% discount from NAV. The largest parts of Industries' asset base are minority investments in Toyota Motor and its affiliates. In effect, TAVF is getting Industries' operating businesses for free, or almost for free. These operating businesses have been growing and currently have an annual operating income of $500 million to $600 million after interest expense. There is a shortage of downtown Class A office space in Tokyo. Leases tend to be short term. Both Mitsubishi Estates and Mitsui Fudosan are increasing rents by 10% to 15% as leases come up for renewal. In addition, both companies are upgrading properties and adding to available rental space. Tokio Marine Holdings Inc. ("Tokio Marine") has been a very successful non-life insurer. It has successfully gone into life insurance. The big news, however, is that this Japanese blue chip is going global. Earlier this year, Tokio Marine acquired a British-listed Lloyd's insurer, and in July the company announced that it is acquiring

Phildelphia Consolidated Holding Corp., a leading U.S. non-life insurer.

The Fund's Western Hemisphere real estate investments are of two types: long-term land development players (St. Joe and Tejon Ranch) and investment builders creating long-term cash flows (Brookfield Asset Management and Forest City Enterprises). Fund Management remains confident about investment builders being able to continue to create wealth for shareholders. Income producing real estate in the U.S., in particular, have the seeds for protracted growth. First, there is the usual availability of long-term, low fixed-rate, non-recourse financing. Second, there is a tax-shelter.

Nabors Industries, the world's largest land driller, is the Fund's largest energy investment. Nabors' growth prospects seem bright as the company transforms itself from a predominantly North American player to an international enterprise. In the interest of disclosure, please note that I am the Lead Director of the company and a member of the Executive Committee. I am one of the founders of Nabors, which reorganized in a pre-packaged Chapter 11 almost 20 years ago.

In the United States, no one can take away a creditor's contractual right to a money payment for interest, principal or premium unless that individual creditor so consents or the company obtains relief from a Court of Competent Jurisdiction, usually a Bankruptcy Court. Thus, historically most non-subordinated performing loans have remained performing loans. It is hard to see how GMAC Senior Unsecureds will default, given the relatively large asset value inherent in the unsecured receivables on its balance sheet; as well as 100% of the equity of insurance subsidiaries and roughly a third of the equity of GMAC Bank. The GMAC Unsecured indentures contain an "equitable and ratable" clause which in effect means that a sizable amount of GMAC assets will remain unencumbered. In the unlikely event of reorganization, GMAC Senior Unsecureds would probably become the dominant shareholder in a well capitalized and reorganized GMAC. MBIA Surplus Notes are covenant lite. Indeed, they are equal from a seniority point of view to preferred stocks. Yet, the MBIA Insurance Company seems likely to generate huge amounts of cash over the next few years so the Surplus Notes will continue to be performing loans or, at worst, almost the equivalent of a zero coupon bond. In the very unlikely event of rehabilitation, the MBIA Surplus Notes would probably be converted to all, or almost all, of the Insurance Company's Common Stock.

Fund Management supposes that it is theoretically possible that claims experienced over the next few years could be so bad that there would be little or no value for the common stocks of monoline insurers and mortgage insurers. To date, there is no credible evidence that this might be the case. A wipe-out of the equity seems remote. The probabilities seem to be such that issuers were selling, at July 31, 2008, at discounts from reasonable estimates of NAV of 70% to 90%.

The asset management business, when there are reasonable prospects of persistence in holding onto assets, is a wonderful business. It is cash generative, without credit risk, without appreciable investments in inventory and fixed assets; and where there usually are control buyers willing to acquire companies at prices equal to 2% to 5% of assets under management.

Posco, Inc., headquartered in South Korea, may well be the world's most efficient producer of both commodity steel and specialty steel. Its large scale expansion into India seems to carry both investment risk and the potential for huge growth.

Our investments in Investor AB and Pargesa Holdings gives us representation with two of the outstanding European private equity-like companies. Both common stocks are priced traditionally at wide discounts from NAV. It is too much to hope that those discounts from NAV will narrow. It is reasonable to expect that over the long term, both companies will continue to be able to increase NAV.

In management's letter last quarter, it was observed that short sellers and bear raiders have never been more powerful. TAVF operates differently from short sellers. At Third Avenue, Fund Management tries to avoid investment risk, i.e., something going wrong with the business or the securities issued by that business. TAVF pretty much ignores market risk, i.e., fluctuations in market prices. Short sellers, on the other hand, have to be acutely conscious of market risk. If the security they are short rises in price, short sellers have to come up with more collateral. If short sellers buy puts, and the security price does not go down, it is "sudden death" at the date of expiration of the put options.

"At Third Avenue, Fund Management tries to avoid investment risk, i.e., something going wrong with the business or the securities issued by that business. TAVF pretty much ignores market risk, i.e., fluctuations in market prices."

As a consequence of the need to be so sensitive to market prices, bear raiders seem to tend very much to engage in nefarious activities, whether legal or not.

First, the shorts condition markets any way they can, whether by spreading rumors or issuing analyses where the consequences for long security holders are deemed to be draconian if the buyer continues to hold. Sometimes the true intentions of the short sellers are masked. For example, William Ackman appears to be disingenuous when he writes and talks about saving MBIA's policyholders. Why does he care about policyholders? Ackman's objective is to drive down the market price of MBIA securities. The bear raiders have enjoyed great success. Bear Stearns lost its credit-worthiness when customers and counterparties reacted to rumors and stopped doing transactions with Bear. Lehman Brothers Holdings has been hurt by the same kind of rumor mongering. TAVF no longer will invest knowingly in the common stocks of companies that need relatively *continuous* access to capital markets; or where customers and counterparties can flee without appreciable costs. Fund management does not believe that Ambac and MBIA, both of which are the objects of bear raiders, can ever have a Bear Stearns type of experience. The great weight of probabilities seems to be that both companies enjoy such financial strength that they can survive almost any stress. For TAVF, the activities of the short sellers have meant that securities became available for purchase at far, far lower prices than would otherwise be the case.

The most nefarious aspect of the short sellers revolves around their concerted efforts to destroy, or at least diminish, the companies' existence as going concerns. In the cases of Ambac and MBIA, the short sellers have been bringing as much pressure as they can on rating agencies, insurance regulators and securities regulators to downgrade Ambac and MBIA, to demonstrate insolvency and to prevent either company from accessing capital markets.

It should be noted that until the recent SEC inquiries, short sellers were pretty much free to say, or write, whatever they like. There is no apparent downside for being a "loose cannon". Managements and insiders, however, are quite restricted in what they can say or write because of securities laws, in general, and Sarbanes-Oxley attestations and auditor limits, in particular. In informing uninformed investors, there does not seem to exist a level playing field.

I will write to you again when the Annual Report for the period to end October 31, 2008 is published.

Sincerely yours,

Martin J. Whitman

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, 2008, the end of the Fund's fiscal third quarter, the unaudited net asset value attributable to the 82,327,960 common shares outstanding of the Third Avenue Small-Cap Value Fund ("Small-Cap Value" or the "Fund") was $23.09 per share, compared with the Fund's unaudited net asset value of $23.78 per share at April 30, 2008, and an unaudited net asset value at July 31, 2007 of $23.84 per share, adjusted for a subsequent distribution. At August 11, 2008, the unaudited net asset value was $23.50 per share.

QUARTERLY ACTIVITY

During the quarter, Small-Cap Value established three new positions, added to 15 of its existing positions, eliminated four positions and reduced its holdings in 10 companies. At July 31, 2008, Small-Cap Value held positions in 66 common stocks, the top 10 positions of which accounted for approximately 31% of the Fund's net assets.

Number of Shares	New Positions Acquired
311,319 shares	Ackermans & van Haaren N.V. ("AvH Common")
1,598,963 shares	Derwent London Plc Common Stock ("Derwent Common")
2,051,016 shares	Wacker Construction Equipment AG Common Stock ("Wacker Common")
	Increases in Existing Positions
240,494 shares	Bristow Group, Inc. Common Stock ("Bristow Common")
741,456 shares	Electro Scientific Industries, Inc. Common Stock ("ESI Common")
411,346 shares	Electronics for Imaging, Inc Common Stock ("EFI Common")
713,122 shares	FBL Financial Group, Inc. Common Stock ("FBL Common")
279,642 shares	Forest City Enterprises, Inc. Class A Common Stock ("FCE Common")
68,927 shares	Imation Corp. Common Stock ("Imation Common")
302,535 shares	Lanxess AG Common Stock ("Lanxess Common")
2,346 shares	National Western Life Insurance Co. Class A Common Stock ("Western Common")
402,200 shares	Parco Company Ltd. Common Stock ("Parco Common")
201,463 shares	Park Electrochemical, Inc. Common Stock ("Park Common")
88,795 shares	Pioneer Drilling Co. Common Stock ("Pioneer 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, 2008: Sapporo Holdings, Ltd., 3.82%; Brookfield Asset Management, 3.72%; Lanxess AG, 3.35%; Westlake Chemical Corp., 3.19%; Parco Co., Ltd., 3.18%; Vail Resorts Inc., 3.13%; National Western Life Insurance Co., 2.91%; St. Mary Land and Exploration Co., 2.62%; TimberWest Forest Corp., 2.53% and Lexmark International, Inc., 2.40%.

Number of Shares or Units	Increases in Existing Positions (continued)
13,932,000 shares	PYI Corp. Ltd. Common Stock ("PYI Corp. Common")
207,800 shares	Tellabs, Inc. Common Stock ("Tellabs Common")
571,405 shares	Vail Resorts, Inc. Common Stock ("Vail Common")
199,400 shares	Westlake Chemical Corp. Common Stock ("Westlake Common")
	Positions Reduced
64,022 shares	Deltic Timber Corp. Common Stock ("Deltic Common")
174,271 shares	Encore Wire Corp., Common Stock ("Wire Common")
64,271 units	Fording Canadian Coal Trust Units ("Fording Units")
246,121 shares	Genesee & Wyoming Inc. Common Stock ("Genesee Common")
290,937 shares	K-Swiss, Inc. Class A Common Stock ("Swiss Common")
490,200 shares	New Alliance Bancshares, Inc. Common Stock ("Alliance Common")
466,388 shares	St. Mary Land and Exploration Co., Common Stock ("St. Mary Common")
229,087 shares	Stanley Furniture Company, Inc. Common Stock ("Stanley Common")
171,027 shares	Superior Industries International, Inc. Common Stock ("Superior Common")
255,440 shares	Whiting Petroleum Co. Common Stock ("Whiting Common")
	Positions Eliminated
3,552,252 shares	Borland Software Corp. Common Stock ("Borland Common")
84,091 units	Brookfield Infrastructure Partners L.P. units ("BIP Units")

Number of Shares	Positions Eliminated (continued)
452,074 shares	GSI Group, Inc. Common Stock ("GSI Common")
738,800 shares	Trinity Industries, Inc. Common Stock ("Trinity Common")

QUARTERLY ACTIVITY

Encouraged by the positive response to the re-opening of the Fund early in the quarter, I am pleased with the solid progress made during the period. Fund Management initiated positions in three new securities that accounted for nearly five percent of Fund assets by quarter-end. The companies underlying each security enjoy a common investment characteristic: each is managed by motivated and passionate executives who take a long-term view of their business and are backed by large shareholders who reinforce that view. Notably, I believe each holding passes one of the ultimate litmus tests: would we be happy owning the entire business at the Fund's current cost basis? As Bob Kirby once put it, "when you consider purchasing the whole company, you have to give up the notion of capitalizing on interim market swings or benefitting from a sudden change in investor sentiment that might improve the price-earnings ratio."[1]

Founded in 1880 as a dredging company, Belgium-based Ackermans & van Haaren NV ("AvH") today is an investment holding company with interests in marine contracting and dredging services, asset management, private equity and real estate. The company's portfolio, the majority of which resides in unlisted securities of small and midsize companies, includes a 50% interest in DEME, one of the largest marine engineering companies in the world; Bank Delen, one of the best private banks in Belgium; and a portfolio of high-quality real estate and property management businesses in and around the Benelux countries. While I can not depend on management's enviable long-term track record continuing *ad infinitum*, the climate of pessimism currently engulfing

[1] Robert G. Kirby, Financial Analysts Federation Speech, Boston, MA, January 1, 1982. Among many other professional accomplishments, Kirby was the Chairman and President of the Capital Guardian Trust Company until 1991.

most asset classes may enable AvH management to accelerate the company's pace of development in as much as other competitive sources of capital (e.g., traditional private equity and buyout firms) remain hamstrung by the credit crisis or direct their resources toward saving busted investments. AvH Common, which was acquired at a modest discount from a conservative estimate of underlying Net Asset Value ("NAV"), is a way for investors to gain many of the advantages of a private equity approach to investing – at a discount – without its attendant costs and "black box" characteristics.

Derwent London is a commercial property developer primarily focused on central London's West End. A U.K. real estate investment trust, Derwent London, was formed through the merger last year of Derwent Valley and London Merchants Securities and presently controls a portfolio comprising 5.6 million sq. ft. and a year-end 2007 appraised value of £2.7 billion. Management has consciously avoided the highest-end property types (e.g., those leased at £120/sq. ft.), preferring to target mid-level properties where it can bring its planning and redevelopment skills to bear and, in the process, add meaningful value to the asset.

Sentiment around real estate in the U.K. today is understandably horrible and share prices of most real estate companies, home builders and the like have been ravaged in recent periods. Derwent's shares, for example, have fallen 35% to 40% in the past year. While Derwent's core properties have not been completely immune from the current market dislocations, the dynamics of the West End, including low vacancy rates, a diverse range of tenants (i.e., not all lawyers and bankers) and restrictive planning regulations should serve to buffer the worst effects of the downturn. At the current quote, Derwent Common attributes little value to the company's burgeoning pipeline of new projects, appears to discount a highly draconian operating environment, and trades at a wide discount to even a very conservative estimate of NAV. All that said, none of these factors can prevent the stock from falling further!

While the company's finances could be a tad stronger and the business model – almost by definition – will produce lumpy results, these considerations are more than offset by a disciplined and energetic management team and an unusually attractive discount. Without putting undue weight on it, it is notable and encouraging that a number of insiders have been purchasing shares in the open market during the most recent period.

Founded in 1848 and headquartered in Munich, Germany, Wacker Construction Equipment is a leading global manufacturer of light construction equipment (weighing up to three tons) and compact construction and agricultural equipment (weighing up to 14 tons) and provides rentals, repairs and related services. With relatively heavy spending on research and development as a focal point, the company is known in both Europe and North America for its strong brands and boasts a long history of profitability, a dense distribution network developed over many decades and a broad patent portfolio. Yet the shares, which have declined more than 70% in the past year, have been severely punished as the group's near-term results continue to weaken. That the shares are usually thinly traded and that management has announced its intentions to continue investing through a downturn (meaning temporarily elevated expenses and lower reported earnings) have only compounded the rush for the exits among investor/speculators focused on near-term results. A perfect recipe for us!

With control of the shares in the hands of two founding families[2], many investors may reasonably conclude that the ownership structure deters a takeover attempt and entrenches management. I see it differently. The current ownership structure is private equity like, and one most managers would envy because it allows management to

[2] The Wacker family and Neuson GmbH own 38.4% and 29.0%, respectively.

focus on longer-term projects and affords them the necessary protections to undertake those activities geared toward creating long-term business value without fear of meddling from short-term oriented capital. The company appears to have numerous growth opportunities ahead of it including, for example, development of its rental fleet in Central and Eastern Europe. Capitalizing on these opportunities, however, is not for those with a short investment time horizon or for those focused on weakening short-term results. As I write, the shares have closed down 12%, following an announcement that the company's (still profitable) results for 2008 will be below management's original forecast.

Shares of Wacker Common were acquired by the Fund at a wide discount to accounting book value, modest multiples of trailing cash flow and earnings, and at a huge spread to any thoughtful estimate of private market value (i.e., the value that a knowledgeable industrial buyer would pay for control of the company).

"...we remain convinced that our 'Safe and Cheap*' philosophy, a philosophy grounded in risk aversion and price consciousness that has served our investors well for decades, is a powerful framework by which investors can preserve and grow their capital over the long haul."

Volatile market conditions enabled Fund management to opportunistically add to its existing portfolio holdings and sell others. Of note, the Fund's most meaningful additions included FBL Common, Lanxess Common, Parco Common and Vail Common. Trinity Common, a long-time Fund holding, was sold with reasonable returns in recognition that a full valuation and a leveraged balance sheet afford little margin for error. Fund management disposed of GSI Common after that company announced a large acquisition, the financing for which we found absolutely appalling. The losses realized on this sale of GSI Common were partially offset by gains realized in prior periods.

"WHAT, ME WORRY?"

– Alfred E. Neuman

My inspiration this quarter comes from Alfred E. Neuman, the zany spokesperson of *Mad Magazine*, fond childhood memories of which remain indelibly inked in my mind. If investors today only listen to the blare of the headlines and consider their recent portfolio performance, it might be easy to feel worried, panicked and anxious. For example, a friend recently asked if it was time to *get out* of the market, noting "I've lost so much money." I reminded my friend that, while painful, unrealized depreciation is not the same as a loss, which only occurs when you actually make a sale. I probed a bit, asking if any of that money would be needed in the next three to five years. Had any of the investments been made with borrowed money? Had any of the money managers altered their approach, possibly adopting a riskier strategy? Was there reason to believe that any of the managers suddenly woke up dumb one day, or otherwise lost their marbles? Have the firms lost good people or sense of values? Do you think you can time the market? When the answers all came back with the same "no," I suggested that it might make sense to stay put, and that additional investments be considered when feasible.

So, like Neuman, we remain unfazed by the incessant swirl of noise and distraction. Why? While we recognize that we can not "buy the bottom" in a particular stock and that not every investment will work, we remain

* "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.

convinced that our "Safe and Cheap*" philosophy, a philosophy grounded in risk aversion and price consciousness that has served our investors well for decades, is a powerful framework by which investors can preserve and grow their capital over the long haul. As we wrote to you about our investment philosophy almost exactly one year ago, at the onset of the credit crisis, at Third Avenue, 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;
- 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 July.

Today's volatility, if it persists, will likely continue to set up some excellent long-term investment opportunities. I would encourage you to look beyond the turbulence of the current period and consider adding to your own holdings in the Fund.

Supported by an outstanding team of colleagues, I look to the future with confidence. I look forward to writing you again when we publish our Annual Report dated October 31, 2008. Thank you for your continued loyalty.

Sincerely,

Curtis R. Jensen

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, 2008, the end of the third fiscal quarter of 2008, the unaudited net asset value attributable to the 85,073,651 shares outstanding of the Third Avenue Real Estate Value Fund (the "Fund") was $23.67 per share. This compares with an unaudited net asset value of $27.24 per share at April 30, 2008, and an unaudited net asset value of $29.93 per share at July 31, 2007, adjusted for subsequent distributions to shareholders. At August 11, 2008, the unaudited net asset value was $24.35 per share.

QUARTERLY ACTIVITY

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

Number of Shares or Principal Amount	New Positions Acquired
$19,822,829	LandSource Communities Development LLC Senior Term Loan due February 2013 ("LandSource Senior Term Loan")
385,141 shares	Savills plc Common Stock ("Savills Common")

Number of Shares	Increases in Existing Positions
3,000,000 shares	British Land Company plc Common Stock ("British Land Common")
800,000 shares	Derwent London plc Common Stock ("Derwent Common")
2,200,000 shares	Hammerson plc Common Stock ("Hammerson Common")
4,500,000 shares	Henderson Land Development Co., Ltd. Common Stock ("Henderson Common")
300,000 shares	Tejon Ranch Company Common Stock ("Tejon Common")
4,785,000 shares	Wheelock Properties, Ltd. Common Stock ("Wheelock Common")
	Decreases in Existing Positions
11,100 shares	Forest City Enterprises, Inc. Preferred Stock 7.375% due 2034 ("Forest City Preferred")
2,114,540 shares	Acadia Realty Trust Common Stock ("Acadia Common")
2,175,379 shares	Brookfield Asset Management, Inc. Common Stock ("Brookfield Common")
700 shares	Cousins Properties, Inc. Common Stock ("Cousins Common")
1,379,629 shares	First Potomac Realty, Inc. Common Stock ("First Potomac Common")
431,404 shares	One Liberty Properties, Inc. Common Stock ("One Liberty Common")
389,876 shares	PS Business Parks, Inc. Common Stock ("PS Business Common")
385,986 shares	RAIT Financial Trust Common Stock ("RAIT 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, 2008: Forest City Enterprises, Inc., 8.85%; Brookfield Asset Management, 8.18%; The St. Joe Company, 7.15%; British Land Company, 5.04%; Hammerson PLC, 4.35%; Wheelock & Co., Ltd., 4.31%; ProLogis, 4.29%; Henderson Land Development Co., Ltd., 4.12%; Derwent London PLC, 3.79%; and Vornado Realty Trust, 3.70%.

Number of Shares	Decreases in Existing Positions (continued)
804,000 shares	Sapporo Holdings, Ltd. Common Stock ("Sapporo Common")
465,418 shares	Vornado Realty Trust Common Stock ("Vornado Common")
	Position Eliminated
282,889 shares	Brookfield Infrastructure Partners, L.P. Common Units ("Brookfield Infrastructure Common")

DISCUSSION OF QUARTERLY ACTIVITY

As noted in last quarter's shareholder letter, the Fund has been evaluating several investments in senior debt instruments that are secured by large land holdings in prime growth areas. Since its inception in 1998, the Fund has made several investments in distressed debt, and Fund management (including this portfolio manager and several other Third Avenue professionals) has years of experience in bankruptcy, workouts and corporate reorganizations. Third Avenue's approach is to invest in the most senior issue of a company's capital structure that will participate in a reorganization. Investing in distressed debt most often means buying debt at a substantial discount to par value with the expectation that the debt will either (a) continue to perform and ultimately be worth par as a result of improved credit or payoff; or (b) default and become the fulcrum security in a reorganization that results in a debt-for-equity exchange.

During the quarter, the Fund initiated a new position in LandSource Senior Term Loan. LandSource owns more than 30,000 acres of land in California, Nevada, Florida, New Jersey, Texas and Arizona. The largest and most valuable land holdings consist of Newhall Ranch and Valencia; two master planned communities in Northern Los Angeles County (roughly 30 miles north of downtown Los Angeles and 30 miles south of Tejon Ranch). Development of the two communities (originally consisting of 48,000 acres) began in 1960 by Newhall Land and Farming Company. Presently, there are approximately 172,000 residents in the two communities. There are approximately 23,000 residential lots remaining, of which over 20,000 have development entitlements. LandSource, which was owned by LNR Property Corp. ("LNR") and Lennar Homes ("Lennar"), acquired Newhall Land and Farming in 2004 for $1 billion. In 2006, LandSource admitted a new partner that contributed several land developments, and LandSource simultaneously obtained new debt totaling $1.35 billion (including the Senior Term Loan and a Junior Term Loan) secured by assets appraised at $2.6 billion. LNR and Lennar reduced their ownership in LandSource and received a combined dividend of $1.1 billion.

LandSource's business plan is primarily to develop residential lots for sale to production homebuilders (Lennar was the primary homebuilder). As the U.S. housing market entered its severe downturn, lot sales to homebuilders fell off dramatically, causing LandSource to default on its debt obligations and ultimately file Chapter 11 Bankruptcy. The LandSource Senior Term Loan has an outstanding balance of approximately $1 billion, and is secured by a first lien on all of the company's real estate (which was recently appraised at $1.7 billion – a 35% reduction from its original valuation in 2006). The Fund acquired the LandSource Senior Term Loan at 70% of face amount, which equates to approximately 41% of the recent appraised value. While the current market for improved residential lots in Southern California is almost nonexistent, LandSource clearly owns some of the most prime, entitled land in the U.S. The Senior Term Loan appears to be fully covered based on asset value, and any plan of reorganization in Chapter 11 will have to either reinstate, payoff or convert the Senior Term Loan to equity.

The Fund also initiated a position in Savills Common. Savills is a London-based, global provider of real estate advisory and facilities management services with a dominant position in the U.K. and expanding presence

in Europe, Asia and the U.S. Savills has been in business since 1855 and currently has over 180 offices worldwide. About half of the company's revenue comes from property transactions including commercial property sales and leasing and residential sales. The U.K. accounts for approximately 65% of revenues and 80% of operating profits. Transaction volumes in the U.K. residential and commercial property markets have been impacted by the credit crisis, and the near-term outlook appears very weak. However, Savills has a very strong financial position (cash exceeds debt), has historically been one of the best-managed real estate service companies in the world and has an excellent reputation among property investors. The Fund began acquiring Savills Common at roughly eight times five-year average earnings per share and less than five times peak earnings per share. Fund Management believes that Savills could be a highly-coveted acquisition candidate for global competitors seeking to expand their footprint in the U.K.

The Fund took advantage of depressed market prices by increasing its positions in several U.K. and Hong Kong holdings, including British Land Common, Derwent Common, Hammerson Common, Henderson Common and Wheelock Common. In order to provide the necessary funds to take advantage of buying opportunities in U.K. and Hong Kong holdings, the Fund reduced its holdings in Brookfield Common and several U.S. REIT stocks, including Acadia Common, First Potomac Common, One Liberty Common, ProLogis Common, PS Business Common, RAIT Common and Vornado Common. The securities sales were primarily done for portfolio management reasons, not because they were overpriced or suffered a permanent impairment. Fund management is continuously focused on holding a portfolio of securities that should provide the greatest potential for long-term capital appreciation, while attempting to minimize taxable gains. Unfortunately, when the Fund is not growing through new subscriptions, some portfolio turnover becomes necessary to take advantage of bargain prices. Fund management will make every reasonable effort to minimize taxable gains prior to the Fund's fiscal year-end without sacrificing the integrity of the portfolio.

SOLID FUNDAMENTALS NOT REFLECTED IN MARKET PRICES

The vast majority of the Fund's portfolio companies continue to report solid operating performance despite the doom and gloom reported daily in the mass media. While their stock prices do not reflect it, fundamentally, the prospects for long-term growth in net asset value appear to be very good. The Fund's portfolio companies are not immune to global economic woes including the credit crisis, high commodities prices and inflation. However, they have maintained very sound financial positions while owning high-quality income-producing properties in high-barrier-to-entry markets such as New York, Washington, D.C., London, Hong Kong and Tokyo.

> **"The vast majority of the Fund's portfolio companies continue to report solid operating performance despite the doom and gloom reported daily in the mass media."**

Fund Management is disappointed with the Fund's recent absolute performance, but we remain focused on long-term fundamentals, and on our view that the portfolio contains an abundance of value and future growth that the market currently fails to recognize. Real estate does go through up and down cycles. The down cycles can be especially painful for those invested with high leverage, or in properties or geographic areas that are more susceptible to overbuilding or economic turmoil. Fund Management has always stressed the importance of investing only in the securities of well-financed companies. The benefits of this fundamental approach are not always apparent during periods of economic

growth and investor exuberance (bull markets); but in periods of economic stress, the dangers of being poorly financed will no doubt be revealed, as will the resilience of the well-financed companies.

In bear markets, securities that were bargains become even bigger bargains – unless, of course, the issuers suffer significant, unrecoverable losses (as opposed to mark-to-market losses). Clearly, many companies in the financial sector have suffered permanent losses, especially those companies that held residential mortgages or their derivative securities or were highly leveraged with short-term debt and were forced to sell assets to meet debt maturities or margin calls. A few troubled sectors that have suffered real (unrecoverable) losses include U.S. homebuilders, residential mortgage REITs, sub-prime mortgage lenders, commercial banks, investment banks and financial guarantee insurance companies. With a few exceptions, the Fund has generally avoided investments in these sectors. In addition, the Fund tends to avoid investments in companies that are dependent upon continuous access to capital (debt and/or equity) for their business model to work.

Unfortunately, over the past twelve months, due to the well-publicized credit crisis, nearly all financial sector companies have been painted with the same brush – regardless of their financial strength, asset quality or prospects for long-term wealth creation. It is safe to say that most market participants are sellers of financial-sector stocks and many participants are, indeed, forced sellers. Market participants are forced to sell if they:

1) are strictly outlook conscious, rather than price conscious, in the securities they choose to buy or sell;
2) believe that the macro outlook for the economy and for markets is more important than fundamental corporate details;
3) know little, or nothing, about the companies or securities in which they are invested;
4) are invested on margin or otherwise heavily indebted;
5) believe their livelihood depends on the near-term performance of stock market prices;
6) need to raise cash in the near-term to meet redemptions.

To illustrate the disparity between company fundamentals and market prices for their common stocks, the following summarizes the Fund's largest holding in each of its five major geographic regions. These five holdings represent approximately 29% of the Fund's total assets.

Forest City Enterprises—United States

Forest City is one of the premier U.S. developers of urban, mixed-use developments. Over the past ten years it has compounded book value per share by 15% per year using its value creation approach to real estate. In recent years, the company has completed some of the most valuable developments in its long history (The New York Times Building and Westfield San Francisco Centre) and taken advantage of rich pricing to sell tertiary properties. More than 75% of the company's retail, office, and multifamily assets are strategically located in New York City, Boston, Washington, D.C., Denver, California, and Chicago. This diversified collection of assets is more than 92% occupied and provides recurring free cash flow for reinvestment into new, value-creating developments. Since Forest City is not a real estate investment trust, it is able to retain and reinvest its earnings. The recent market price of Forest City Common essentially implies no value to the company's $1.8 billion (book value) development pipeline (approximately $18 per share). Current economic conditions will probably cause Forest City to delay the timing of certain projects and possibly even walk away from certain developments in its "shadow" pipeline. In addition, rising construction costs and more conservative "exit" financing may lead to less attractive development margins. Nonetheless, over 90% of Forest City's developments are located in its strategic, high-barrier-to-entry markets, where supply remains constrained and

additional building will be limited, given the restrictive lending environment. Forest City's strong balance sheet and its development know-how should enable it to work through the difficult building process, obtain the necessary financing and secure tenants for its irreplaceable locations. As in the past, the development pipeline ultimately translates into growth in shareholder value.

Brookfield Asset Management—Canada

The bulk of Brookfield's assets consist of world class office buildings in key international cities (New York, Toronto, London, Sydney, Washington, D.C.) and an irreplaceable portfolio of hydroelectric power generating plants that are concentrated in the Northeastern portion of North America. Both asset types provide very stable, long-life cash flows that can be leveraged with non-recourse debt in order to enhance the return on equity capital (average lease term in its office portfolio is 10 years and the average contract in its power generation contracts is close to 11 years). The cash flows from these assets have increased considerably in recent years, allowing the company to increase book value per share by more than 30% per year, over the past five years, while remaining disciplined and only placing modest amounts of debt on its assets (typically 50% loan-to-value) while retaining a significant amount of its cash flow for future opportunities. As a result, the company currently has more than $1.5 billion of cash and is in a position to capitalize on the turbulent markets by: 1) buying high-quality, long-life assets at a discount to replacement cost through public and private market transactions; and 2) substantially increasing the size of its asset management business, by attracting institutional capital given its long-term results and ability to co-invest capital. Brookfield should be able to achieve its long-term objective of increasing cash flow per share and, thus, net asset value, by 15% per year.

Mitsubishi Estate—Japan

Mitsubishi owns one of the highest quality real estate portfolios on a global basis. Its key assets include 31 office properties in central Tokyo's most exclusive sub-market (Marunouchi), as well as office properties in both mid-town Manhattan and central London. The portfolio is more than 98% leased and generates in excess of $1.6 billion of recurring annual cash flow. As a real estate operating company with low debt levels, Mitsubishi retains more than 85% of its cash flow and profitably reinvests that capital into new developments, redevelopments, and acquisitions. The company plans to spend more than $4 billion over the next eight years redeveloping multiple projects in Marunouchi. Based on recent redevelopments, Fund management estimates that Mitsubishi has the potential to generate $4 to $5 of equity value for every $1 that it invests in these redevelopment projects. However, the market seems to give no credit for the significant amount of value creation that is taking place. Mitsubishi Common trades at a substantial discount to NAV, which may be attributable to negative sentiment surrounding Japanese property stocks, given a handful of smaller developers that overextended their balance sheets. This is clearly not the case with Mitsubishi, which seems to have a fortress like balance sheet and ability to thrive in any environment.

Henderson Land—Hong Kong

Henderson owns more than 13 million square feet of investment grade property in Hong Kong and Mainland China. The company's portfolio is more than 94% leased and generates significant recurring rental income, which is further supplemented by the dividend it receives from its 40% stake in Hong Kong China & Gas and proceeds from residential property sales. As a real estate operating company, Henderson retains about 75% of its free cash flow and reinvests in what is arguably one of the most attractive development pipelines in Asia. For instance, in Hong Kong, Henderson currently has 8.1 million square feet of property held for or under development and more

than 8,000 acres of agricultural land for future developments. This is the largest land bank of any Hong Kong property developer. In Mainland China, Henderson has 14 million square feet of developments that are expected to be completed by 2010 and an additional 9,000 acres of land for future developments. Despite the strong underlying fundamentals in its property portfolio and profitable development activity, Henderson Common has recently traded at prices representing a substantial discount to conservative estimates of net asset value. The continued austerity measures implemented by the Chinese government to "cool down" the Mainland property market have undoubtedly impacted a large number of the local developers, especially those who have not been able to obtain financing or have been forced to sell into a weak market. However, Henderson has nearly $350 million of recurring cash flow that it can use to self-finance its developments. In addition, Henderson's low debt levels give it the ability to hold inventory until the market returns and have allowed the company to opportunistically add Mainland property assets during the recent pullback.

British Land—United Kingdom

British Land owns a high quality portfolio of retail and office assets that are leased to credit worthy tenants on a long-term basis. The retail assets are geographically dispersed in the U.K., where development entitlements are difficult to obtain. The office portfolio is concentrated in Central London, a high-barrier-to-entry market. The portfolio is 98% leased and provides steady cash flows to service its debt, corporate overhead and dividends (approximately 5% current yield). The remaining cash is reinvested into the company's modest development pipeline, which should provide future net asset value growth. British Land's strong financial position should enable it to make opportunistic acquisitions of assets, developments, and even other publicly-traded companies. The current credit environment has impacted various markets across the globe, but U.K. property stocks have been particularly affected. The crisis has created some apparent bargains, especially considering that the underlying property cash flows for high-quality properties should not be impaired. For instance, British Land's portfolio is leased primarily to blue-chip tenants at an average lease term of 16 years and the company has locked in 100% of its debt at an average rate of 5.3%, for 14 years. Despite its solid fundamentals and increasing cash flow, British Land Common is trading at a substantial discount to appraised value.

The Fund's holdings have certainly been impacted to some extent by macro-economic factors and, to a greater extent, indiscriminate selling that has very little to do with the underlying company-specific fundamentals. Given the current market prices, Fund management believes the portfolio is valued at levels that represent exceptional discounts to private market values. There are also substantial attractive buying opportunities for additional securities that meet our investment criteria.

The Fund is currently open to new and existing investors. We hope you will agree that this is an opportune time to consider increasing your investment in the Fund.

I look forward to writing to you again when we publish our Annual Report for the fiscal year ending October 31, 2008.

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, 2008, the unaudited net asset value attributable to the 104,903,994 shares outstanding of the Third Avenue International Value Fund (the "Fund") was $17.27 per share, compared with the Fund's unaudited net asset value at April 30, 2008 of $19.23 per share, and an unaudited net asset value of $21.02 per share at July 31, 2007, adjusted for the distribution of $3.84 per share. At August 11, 2008, the unaudited net asset value was $17.15 per share.

QUARTERLY ACTIVITY:

In the most recent quarter, the Fund established a new position in the common shares of one company, added to positions in the common shares of 12 companies, reduced holdings in the common shares of five companies and eliminated four positions.

Number of Shares	New Position Acquired
772,218 shares	GlaxoSmithKline PLC Common Stock ("GSK Common")

Number of Shares	Increases in Existing Positions
1,900,000 shares	ABB Grain Limited Common Stock ("ABB Common")
167,465 shares	Allianz SE Common Stock ("Allianz Common")
2,154,100 shares	Brit Insurance Holdings PLC Common Stock ("Brit Common")
349,800 shares	BW Gas Limited Common Stock ("BW Gas Common")
473,800 shares	Daibiru Corporation Common Stock ("Daibiru Common")
94,045 shares	Imerys S.A. Common Stock ("Imerys Common")
169,900 shares	L. E. Lundbergforetagen AB Common Stock ("Lundbergs Common")
523,000 shares	Mitsui Fudosan Co., Ltd. Common Stock ("Mitsui Fudosan Common")
112,000 shares	Munchener Ruckversicherungs-Gesellschaft AG Common Stock ("Munich Re Common")
339,600 shares	Sanofi-Aventis S.A. Common Stock ("Sanofi Common")
616,000 shares	Seino Holdings Co., Ltd., Common Stock ("Seino Common")
218,700 shares	Tokio Marine Holdings, Inc. Common Stock ("Tokio Marine Common")
16,500,000 shares	United Microelectronics Corp. Common Stock ("UMC Common")

	Decreases in Existing Positions
534,000 shares	Capital Nomura Securities PCL Common Stock ("Capital Nomura 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, 2008: ABB Grain, Ltd., 4.85%; Viterra, 4.38%; Catalyst Paper Corp., 4.14%; WBL Corp., Ltd., 4.04%; Compagnie Nationale A Portefeuille, 3.29%; Nippon Sheet Glass Co., Ltd., 2.95%; GuoccoLeisure Ltd., 2.92%; BW Gas, Ltd., 2.92%; Yuanta Financial Holding Co., Ltd., 2.89%; and Guocco Group, Ltd., 2.78%.

Number of Shares	Decreases in Existing Positions (continued)
3,859,700 shares	KGI Securities Thailand PCL Common Stock (“KGI Common”)
130,980 shares	United International Enterprises Ltd. Common Stock (“UIE Common”)
4,054,000 shares	Vitasoy International Holdings Ltd. Common Stock (“Vitasoy Common”)
971,600 shares	Viterra, Inc. Common Stock (“Viterra Common”)
	Positions Eliminated
124,875 shares	Blue Ocean Reinsurance Holdings Ltd. Common Stock (“Blue Ocean Common”)
43,800 shares	Chudenko Corporation Common Stock (“Chudenko Common”)
812,000 shares	Futaba Corporation Common Stock (“Futaba Common”)
1,181,400 shares	Nichicon Corporation Common Stock (“Nichicon Common”)

REVIEW OF QUARTERLY ACTIVITY

In last quarter’s letter, we discussed the Fund’s purchase of shares of Sanofi-Aventis S.A. (“Sanofi”), one of the largest pharmaceutical companies in the world. Numerous issues which are clouding the outlook for the pharmaceutical industry – including a stricter Food and Drug Administration, the upcoming Presidential Election in the U.S., intensifying generic competition, and the ongoing push by governments to contain health care costs – in addition to company-specific issues, enabled Fund management to purchase shares of this well-financed, highly profitable and cash generative business at what we believe is an attractive valuation, without attributing any value to Sanofi’s pipeline.

While we believe Sanofi represents an attractive investment opportunity for the Fund on a stand-alone basis, the company, and the pharmaceutical industry in general, are subject to inherent uncertainties whose outcomes are difficult to predict with a high degree of certainty. One of the most notable of these uncertainties is the ultimate level of clinical and commercial success attained by the potential drugs in companies’ pipelines. Therefore, we believe that, if (and only if) we find additional candidates which meet our strict investment criteria on a stand-alone basis, it would be prudent to invest in a portfolio of well-financed, attractively valued pharmaceutical companies, in order to provide some degree of diversification across various pipelines and product lines.

We believe that GlaxoSmithKline plc (“GSK”) is one such company which represents an attractive investment in its own right and complements the Fund’s holding in Sanofi. U.K.-based GSK, one of the largest branded pharmaceutical and vaccine manufacturers in the world, has seen its share price suffer in recent months due to general industry concerns, as well as company-specific issues, including negative press questioning the safety of its diabetes drug Avandia. Additionally, there are general concerns among the investment community that the company’s late-stage pipeline over the short term will not offset the loss in sales from upcoming patent expirations.

Despite the various issues and uncertainties which drug companies currently face, the industry continues to benefit from favorable industry dynamics which we find attractive, including its highly profitable, cash generative nature, stable demand and solid long-term fundamentals (i.e., an aging population in the U.S., growth in emerging markets, etc.). Furthermore, like Sanofi, we believe that GSK has a number of attractive, company-specific attributes, such as its strong balance sheet, which should provide the company with the financial flexibility to pursue agreements or acquisitions to bolster its pipeline and/or research capabilities.

GSK also benefits from a sound and diversified revenue base. Aside from Advair, GSK’s asthma medication which made up roughly 15% of sales in 2007, no other single

drug accounted for greater than 5% of sales. Its vaccines business, which has been growing briskly and is relatively more resistant to the threat of generics, made up about 9% of sales in 2007. Additionally, GSK's consumer healthcare division (roughly 15% of 2007 sales), which produces and markets over-the-counter medicines, oral care, and nutritional healthcare products, has been a provider of stable cash flow to the company, having generated an average of over £750 million (roughly $1.4 billion) in EBITDA over the past four years. Each of these businesses appears to possess elements of recession resistance and should mitigate the company's exposure to individual drugs.

Emerging markets, many of which have large populations which are increasingly able to afford quality healthcare, represent a significant source of potential growth for the company. The U.S. and Europe currently comprise a large majority of the global pharmaceutical market, highlighting the potential for longer-term growth elsewhere in the world. GSK has responded accordingly, recently announcing the reorganization of its corporate structure to emphasize growth in these markets; the company continues to steadily grow its presence in these regions.

GSK has also aggressively approached cost cutting, as its "Operational Excellence Program," announced in October 2007, is projected to deliver £700 million in annual, pre-tax savings by 2010. The costs that are wrung out of the business should mitigate the impact of patent expirations and pricing pressures over the short term.

As was the case with Sanofi, shares of GSK were purchased at what we believe are modest multiples of earnings and cash flow, even in a "reasonable worst-case" scenario, which does not attribute much value to GSK's pipeline. If one were to estimate a theoretical market value of GSK's vaccines and consumer healthcare businesses, two areas which appear to be quite marketable and have seen transactions at healthy multiples in the recent past, the valuation of GSK's core pharmaceutical business appears even more modest.

The Fund has owned the common stock of Brit Insurance Holdings plc ("Brit"), a well-capitalized U.K. property and casualty insurance company, since 2002. Brit operates in the Lloyd's market, writes additional primary insurance and reinsurance outside of Lloyd's, and also runs a commercial, professional, and auto insurance business in the U.K.

The shares of most insurance companies have suffered price declines during the last twelve months. The market is concerned about weakening reinsurance rates and exposure to falling asset prices, both in fixed income securities (where there is a risk of credit impairment) and equity securities. Brit has no exposure to subprime mortgages in its investment portfolio, and its allocation to equities is less than 10% of total investments. In its underwriting operations however, Brit has written financial guaranty policies exposed to subprime mortgages, and it has been notified of some liability claims related to subprime lending. The underlying exposures are limited, capped, and, to a large extent, already reserved for. Brit reported record earnings per share, despite the increased reserves related to subprime exposures.

Brit also suffers from generally inadequate pricing in the U.K. primary insurance market where, until recently, multiple competitors fought for market share by cutting rates, resulting in a prevailing level of pricing which is insufficient compensation for risks assumed. Brit has curtailed the amount of business it is writing in the U.K. and awaits improvement in the pricing environment before increasing premiums again.

Brit shares have sold off out of proportion to the underlying weaknesses in its near-term operating performance, which, we believe, will not impair the company's comfortable financial position. For a period of time, the shares were trading at more than a 30% discount to our conservative estimate of NAV. The Fund took advantage of this pricing to increase its position in Brit common stock.

MACRO MAYHEM, MICRO OPPORTUNITY?

In an earlier shareholder letter (for the quarter ended January 31, 2008), we noted that there were periods of dislocations – usually financial in origin, but not necessarily – which were characterized by a divergence between market valuations based upon perceived, usually short-term, outlook and the actual long-term fundamentals of certain businesses. This, in turn, led to market valuations for these companies being considerably distanced from what would be long-term valuations of the underlying business. Most of the time, there are pockets of misvaluation in specific industries or countries, but once or twice a decade, we live through an extreme environment where valuation discrepancies become overwhelming. Whether through euphoria driving excessively elevated valuations – as in the dotcom and Technology, Media, Telecom boom less than a decade ago, or the insatiable appetite investors had for a variety of emerging markets less than a year ago – or, through fear causing speculators to trip over each other to rid themselves of stocks – as with many financial stocks today – speculative markets lurch to extremes that ignore the transience of both good times and bad times. We live in such an environment right now and we believe that it offers great opportunities for investors who are patient and discerning. We outline below how the Fund's investment discipline guides us in the current environment, and how it affects companies in which the Fund has invested.

"The Fund's portfolio already abounds with shares of financially strong companies. Today's environment of fear obviously highlights these companies' defensive characteristics: they have no need to raise money on unattractive terms, no forced disposals of assets at depressed prices, and no sacrifice of long-term value to save the business in the short term."

Our discipline focuses our attention disproportionately upon the investee company itself, with little weight given to macro-economic or market prognostications. The typical holding period for a Fund investment is several years, which is likely to include some difficult environments as well as benign ones. We are, therefore, unwilling to base investment decisions upon inherently unknowable conjectures about the near future. Instead, we focus upon the ability of the company to cope with economic stress, whether in the form of falling demand, increasing input costs, difficulty in raising capital, etc. Necessarily, the company should have the financial wherewithal to continue its normal business activities without requiring access to external financing. This would substantially unlink the company's fortunes from the vagaries of the capital markets, debt or equity, largely obviating the need for "market-related" considerations in arriving at an investment decision.

Whenever heightened concerns about short-term outlook outweigh considerations of long-term business values and balance sheet strength, our discipline tends to identify attractive investment opportunities. The Fund's portfolio already abounds with shares of financially strong companies. Today's environment of fear obviously highlights these companies' defensive characteristics: they have no need to raise money on unattractive terms, no forced disposals of assets at depressed prices, and no sacrifice of long-term value to save the business in the short term. Additionally, and less obviously, their strength provides them with offensive abilities to build business value today, by

deploying capital in ways that might not have been available in a more "normal" environment and are certainly not available to their weakly capitalized peers or competitors.

Examples relating to some of the Fund's investee companies follow:

- **Companies which raised capital earlier are able to deploy it currently in a period of lower asset prices.** Cie Nationale de Portefeuille's subsidiary, Groupe Bruxelles Lambert, for example, raised capital during the last two years via asset sales and equity issuance; and now has been able to accumulate a sizable position in Lafarge Corp. at increasingly attractive prices. Another portfolio holding, Netia, was able to use its cash hoard to acquire a large competitor, Tele2 Poland, to become the undisputed alternative to the incumbent telecom company.
- **Companies which have restructured and cleaned up their business have been able to raise funds on attractive terms.** Both ABB Grain, Ltd. and Viterra, Inc. issued shares with a view toward expanding their existing businesses and acquiring new ones.
- **Companies with unusually attractive business positions can raise funds even in today's markets.** Recently, Mitsui Fudosan Co. Ltd. was able to raise 10 billion Japanese Yen in 10-year bonds, at a rate of 1.95%, a scant 80 bps above the corresponding Japanese Government Bond at that time. This is even more significant, given the difficulty some of its less well-capitalized peers are having in accessing capital markets.
- **In sectors where access to capital is particularly limited, the competition for assets is relatively muted, allowing those with access to funds to make purchases at unusually attractive prices.** For example, Catalyst Paper's recent purchase of the Snowflake, Arizona newsprint mill at an unusually modest consideration.
- **In the current environment, some of the companies with excess capital can repurchase their shares at prices well below their longer-term value as a business.** This path is being followed *inter alia* by Montpelier Re Holdings, Ltd., Sanofi-Aventis, GlaxoSmithKline plc., Brit Insurance Holdings plc, and Yuanta Financial Holding Co Ltd..

Somewhat more speculatively, we believe that the dislocations in capital markets created opportunities for other value-creating corporate actions. Several examples spring to mind:

- **In Japanese real estate, there is a gaping discrepancy between the market valuations of public real estate companies and the private transaction values of their assets.** We would not be surprised to see acquirers, which hopefully include some of our portfolio companies, taking advantage of the gap and buying high-quality assets at a discount.
- **Thanks to newly relaxed regulations, Taiwanese companies with excess capital have new opportunities to expand into China.** With Chinese markets in disarray, local competitors may be less formidable than previously feared. Both financial companies, such as Yuanta, and technology companies, such as UMC, are likely to take advantage of this opening.
- **Insurance companies with quasi-guaranteed inflows of fresh funds, including European life insurers with stable portfolios of pension products, can take advantage of depressed asset prices to buy securities at much higher spreads than in the past.**

Finally, we believe that a strong financial position is an advantage not only for the Fund's investee companies but for the Fund itself. Our cash level remains comfortable and sufficient to take advantage of unexpected opportunities that the capricious markets may send our way.

GEOGRAPHICAL DISTRIBUTION OF INVESTMENTS

At the end of July 2008, the geographical distribution of securities held by the Fund was as follows:

	%
Japan	12.56
Canada	11.65
Taiwan	8.48
Singapore	7.53
Hong Kong	7.17
Australia	6.20
Bermuda	4.48
Germany	3.82
Belgium	3.29
France	2.89
United Kingdom	2.85
Poland	2.48
South Korea	2.40
United States	2.28
Chile	1.94
New Zealand	1.57
Denmark	0.90
Sweden	0.86
Thailand	0.50
Equities-total	83.85
Cash & Other	16.15
Total	100.00%

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

I look forward to writing to you again when we publish our Annual Report for the period ending October 31, 2008.

Sincerely,

Amit Wadhwaney
Portfolio Manager
Third Avenue International Value Fund

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