



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

Second Quarter Commentary

April 30, 2009

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If you should have any questions, please call 1-800-443-1021, or visit our web site at: www.thirdave.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 May 14, 2009.



Third Avenue Value Fund



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



IAN LAPEY
SENIOR RESEARCH ANALYST

Dear Fellow Shareholders:

At April 30, 2009, the unaudited net asset value attributable to the 129,057,275 shares outstanding of the Third Avenue Value Fund (“TAVF”, “Third Avenue”, or the “Fund”) was \$34.87 per share. This compares with an unaudited net asset value of \$31.08 per share at January 31, 2009; and an unaudited net asset value of \$56.19 per share at April 30, 2008, as adjusted for a subsequent distribution to shareholders. At May 12, 2009, the unaudited net asset value was \$37.18 per share.

QUARTERLY ACTIVITY

Principal Amount	New Position Acquired
\$15,000,000	LandSource Communities Development Term Loan B (“LandSource Term Loan”)

Principal Amount or Number of Shares

\$4,520,000

\$20,000,000

\$2,000,000

\$21,250,000

\$2,000,000

\$8,000,000

2,710,491 shares

342,300 shares

\$2,005,000

12,713,000 shares

2,000,000 shares

4,475,900 shares

2,000,000 shares

Positions Increased

Forest City Senior Unsecured Debt (“Forest City Seniors”)

General Motors Acceptances Corp. Senior Unsecured Debt (“GMAC Seniors”)

MBIA Insurance Corp. Surplus Notes (“MBIA Surplus Notes”)

Nortel Networks Senior Unsecured Debt (“Nortel Seniors”)

Standard Pacific Corp. Senior Unsecured Debt (“Standard Pacific Seniors”)

Positions Decreased

LandSource Communities Development Term Loan B (“LandSource Term Loan”)

Radian Group Common Stock (“Radian Common”)

Positions Eliminated

Datascope Corp. Common Stock (“Datascope Common”)

General Motors Corp., Step Bond (“GM Step Bond”)

Hutchison Whampoa Ltd. Common Stock (“Hutchison Whampoa Common”)

MGIC Investment Corp. Common Stock (“MGIC Common”)

St. Joe Co. Common Stock (“St. Joe Common”)

Suncor Energy Inc. Common Stock (“Suncor 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 April 30, 2009: Henderson Land Development Co., Ltd., 12.52%; Cheung Kong Holdings, 12.45%; Toyota Industries Corp., 10.95%; Posco (ADR), 5.99%; Wheelock & Co., Ltd., 4.38%; Nabors Industries, Ltd., 3.75%; Wharf Holdings, Ltd., 3.58%; Brookfield Asset Management, Inc., 3.45%; Investor AB, 3.32% and Bank of New York Mellon, 3.11%.



The Forest City Seniors, GMAC Seniors, MBIA Surplus Notes and Standard Pacific Seniors were acquired at prices that reflect, on average, yields to maturity well in excess of 25%. At the time of acquisition, Fund Management believed that the probability that each loan would remain a performing loan was in a range of 85% to 95%. That remains true for Forest City, GMAC and Standard Pacific. Unfortunately, that may no longer be true for MBIA Surplus Notes. On February 19th, MBIA announced as a *fait accompli* an asset stripping transaction under which MBIA Insurance Corporation, the issuer of the MBIA Surplus Notes, transferred without any consideration over \$5 billion of assets and all the profitable going concern activities of MBIA Insurance Corporation to a second tier subsidiary of MBIA's parent company. If this asset stripping transaction stands, the MBIA Surplus Notes surely will have suffered a very material permanent impairment. Third Avenue has brought suit in Delaware Chancery Court seeking to undo the asset stripping transaction and policyholders have brought suit in Federal Court in New York's Southern District with claims not dissimilar from those of Third Avenue. Litigation outcomes are always hard to predict, but Third Avenue seems to have a strong case.

If Third Avenue prevails, either after trial or via settlement, the odds will become strong that MBIA Surplus Notes will remain a performing loan over its lifetime. Meanwhile, for the immediate future, say through January 2010, the Surplus Notes seem likely to remain a performing loan, albeit a lot less likely than would be the case had there been no asset stripping.

Excluding the MBIA experience, buying ultra high-yielding performing loans under current economic conditions seems a very attractive activity. For example, if TAVF acquires a loan with a 30% yield to maturity, and Fund Management is correct in its analysis, then not much

attention has to be paid to market prices. Held to maturity, the loan will provide an annual return to the Fund of about 30%. Even if the loan proves not to be a performing loan, Third Avenue in each of its high-yield investments (except MBIA Surplus Notes) ought to fare pretty well in a troubled company reorganization either out-of-court or in Chapter 11. The principal disadvantage to TAVF's high-yield investing program seems to revolve around the fact that most, or all, of the profits that might be made, will likely be taxable to U.S. taxpayers as ordinary income.

The Nortel Seniors, which were acquired at around 17% of claim, are workout securities. Nortel is undergoing a court-supervised reorganization, principally under the Companies' Creditors Arrangement Act ("CCCA") in Canada. Fund Management believes it likely that much of Nortel's various telecom assets will be sold at prices representing substantial premiums over the Fund's cost basis.

While cashflows turned positive this month, common stock sales were made, during the quarter, in order to maintain a cash position in excess of 5%. Management reluctantly sold the Fund's positions in Hutchison Whampoa Common, St. Joe Common and Suncor Common. The sales of MGIC Common and Radian Common reflect a view that both companies may be suffering permanent impairments, as the U.S. housing market continues to deteriorate. Datascope Common was sold in a take-over transaction at a profit.

A final word on MBIA... In addition to the \$362,167,000 principal amount of Surplus Notes, Third Avenue also owns 19,349,845 shares of MBIA parent company common stock. Probably the toughest thing we do as Fund Management is appraisals of portfolio company managements. Generally Fund Management seems to do a good job, but this is an area of our "safe and cheap"

* "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.



approach where Fund Management probably screws up more than in any other single area. MBIA management certainly is a big disappointment to TAVF. Aside from the legal ramifications of the asset stripping, it seems to us that the transaction sullies the MBIA name in a field where it is utterly important to be viewed by potential policy holders as a company run honorably and with integrity. Understandably, MBIA wanted to separate its sound, profitable, domestic municipal bond business from its

unsound, unprofitable structured finance business. There is no question in Fund Management's mind that through consultation with the relevant parties, adequate protections for this separation could have been accomplished, and still can be accomplished, without the asset stripping; and with leaving adequate protection for the policyholders and creditors of MBIA Insurance Corp. Without apparently ever contacting any policyholder or creditor, MBIA management chose to proceed with its asset stripping ideas.

HONG KONG UPDATE — COMPANIES REMAIN STRONGLY CAPITALIZED AND VERY ATTRACTIVELY VALUED

Third Avenue Value Fund Hong Kong Real Estate and Private Equity Companies

	Common Stock Price	Common Stock Per Share		Discount / (Premium)		Net Debt to Capital	Insider Ownership
		NAV ¹	Adjusted NAV ²	NAV ¹	Adjusted NAV ²		
Cheung Kong Holdings	\$80.70	\$99.80	\$100.38	19%	20%	13.2%	40%
Hang Lung Group	\$28.65	\$27.78	\$30.84	-3%	7%	3.5%	37%
Henderson Land Development	\$36.50	\$56.00	\$59.21	35%	38%	14.1%	54%
Wharf Holdings³	\$25.75	\$36.13	\$41.31	29%	38%	18.2%	30%
Wheelock⁴	\$16.80	\$28.91	\$32.72	42%	49%	1.0%	59%

Note: Prices as of April 30, 2009. All figures in Hong Kong dollars.

¹Reported Net Asset Value ("NAV") as of 12/31/08.

²Excludes Deferred Tax Liability.

³Insider ownership represents indirect ownership through Wheelock.

⁴Excludes Wharf's debt (non-recourse to Wheelock).

Source: Company reports; Third Avenue estimates.

As of April 30, 2009, approximately 39% of the portfolio was invested in the common stocks of companies based in Hong Kong. Recently, all of our Hong Kong holdings reported their 2008 results. Although most companies reported sharp declines in earnings, owing to lower revaluation gains on investment properties and reduced development profits from asset sales, all of the companies in which the Fund has common stock investments were profitable. We were very pleased with the continued strong performance of the real estate leasing portfolios in both Hong Kong and mainland China. Most importantly, as

the preceding chart illustrates, all of the companies continue to have extremely strong financial positions and are very well poised to take advantage of opportunities presented by the current global recession and credit crunch. Finally, despite this very strong business performance, the common stocks of the companies remain very attractively valued. Examples include the following, which, in the aggregate, accounted for approximately 37% of the Fund's net assets at April 30, 2009:

- Cheung Kong (whose common stock represents a 12.5% position in the Fund) reported 2008 earnings



of HK\$6.70 per share. Although this constituted a 44% decline compared to 2007, owing primarily to one time gains in the prior period, the underlying business performance was strong. Contribution from property rentals increased 18%. Hutchison Whampoa (50% owned by Cheung Kong) reported a 17% increase in EBIT from established businesses (ports, property, retail, energy, infrastructure, finance and telecom). Additionally, Hutchison Whampoa's 3G start-up reported much improved results, including a 17% increase in customers to 20.7 million, and reiterated its plan to achieve breakeven EBIT in 2009.

Cheung Kong's financial position remained very strong as evidenced by its net debt to capital ratio of only 13.2%. In April, 2009, Hutchison Whampoa issued US \$1.5 billion of 10-year debt at a very attractive fixed rate of 7.625%, demonstrating its ability to access the capital markets even during the current credit crunch. Cheung Kong Common trades at a 19% discount to reported year-end net asset value ("NAV") and has a terrific management team lead by Chairman Li Ka-shing, who owns 40% of the common stock.

- Henderson Land Development Company (whose common stock represents a 12.5% position in the Fund) reported interim earnings of HK\$0.55 per share for the six months ended December 31, 2008. The reported earnings were down 89% compared to a year ago, owing primarily to a decrease in the fair value of properties and lower contribution from property sales.

The performance of the company's core rental properties remained strong, as rental income increased 10% year over year and the occupancy rate remained at 94%. The results of 39%-owned Hong Kong and China Gas were healthy, as gas sales in Hong Kong increased 2%. Hong Kong and China Gas continues to grow in mainland China through its 46% ownership of Towngas China, which reported a 40% increase in profit. Hong Kong and China Gas continues to be a strong source of cash flow for Henderson (approximately HK\$900 million per year).

“Most importantly, all of the companies continue to have extremely strong financial positions and are very well poised to take advantage of opportunities presented by the current global recession and credit crunch.”

Henderson's financial position remained strong as evidenced by its net debt to capital ratio of 14.1% and large cash position (HK\$20.1 billion). Net asset value at year end totaled HK\$56 per share (\$59.21 excluding the deferred tax liability), compared to its April 30, 2009 market price of HK\$36.50. Chairman Lee Shau Kee has been buying shares of Henderson in 2009 and now owns nearly 54% of the company's common stock.

- Wheelock (whose common stock represents a 4.4% position in the Fund) reported 2008 earnings of HK\$1.69 per share. The solid results were driven by strong performance at Wheelock's 50%-owned subsidiary, Wharf Holdings (whose common stock represents a 3.6% position in the Fund). Wharf's core Hong Kong investment properties, Harbor City and Times Square, which constitute 46% of the company's total assets, reported increases in operating profit of 21% and 16%, respectively. Both properties had retail occupancy levels of 99%, resulting in favorable rental



growth. Office occupancy was also strong at 96% and 98%, respectively. Wharf's China properties (23% of total assets) reported revenue and operating profit growth of 22% and 38%, respectively, for its three core investment properties (Beijing Capital Times Square, Shanghai Times Square and the retail podium of Chongqing Times Square).

At year end, Wheelock's net debt (excluding Wharf debt, which is non-recourse to Wheelock) totaled HK\$573 million (1% of total capital) while Wharf also remained extremely well financed with HK\$15.9 billion of cash and a net debt to capital ratio of only 18.2%. The management team, lead by Chairman Peter Woo, who owns 59% of Wheelock's common stock, wisely funded much of its mainland China expansion in January 2008 by raising HK\$9 billion at Wharf through a common stock rights offering at HK\$30 per share (compared to the current price of \$25.75). Wheelock and Wharf currently trade at discounts to reported year-end NAV of 42% and 29%, respectively.

- Hang Lung Group ("Group") (whose common stock represents a 2% position in the Fund) reported earnings of HK\$0.67 per share for the six months ended December 31, 2008. The company's results were driven by strong operating results from 52%-owned Hang Lung Properties ("Properties") (whose common stock represents a 1.9% position in the Fund), which accounts for the vast majority of its operations. Properties reported a 16% increase in leasing profits, driven by growth of 30% in China (Shanghai) and 8% in Hong Kong. Properties reported a HK\$950 million revaluation gain on its investment properties consisting of a HK\$2,894 million increase in the fair value of its Shanghai investment properties, partially offset by a HK\$1,914 valuation loss in Hong Kong, owing to higher cap rates.

Group's consolidated balance sheet remained very strong, with HK\$9.6 billion in cash compared with HK\$10.9 billion in debt (1.7% net debt to capital ratio), while Properties continued to enjoy a net cash position that positions the company well to execute on its mainland China expansion strategy. As of April 30, 2009, Group common shares were valued at a 20% discount to its holdings in Properties common shares and a 3% premium to reported NAV (7% discount to adjusted NAV excluding the deferred tax liability). We believe that Hang Lung has the most dynamic growth prospects of all of our Hong Kong holdings, owing to its management team lead by Chairman Ronnie Chan, who owns 37% of Group's shares, along with its mainland China expansion plans. The current economic weakness should enable strongly financed Hang Lung to benefit from lower land prices as it executes its mainland China development strategy.

We shall write you again after the July 31, 2009 quarter end.

Martin J. Whitman
Chairman of the Board

Ian Lapey
Senior Research Analyst



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 April 30, 2009, the end of the Fund's fiscal second quarter, the unaudited net asset value attributable to the 79,349,858 common shares outstanding of the Third Avenue Small-Cap Value Fund ("Small-Cap Value" or the "Fund") was \$14.11 per share, compared with the Fund's unaudited net asset value of \$13.32 per share at January 31, 2009, and an unaudited net asset value at April 30, 2008 of \$23.13 per share, adjusted for a subsequent distribution. At May 12, 2009, the unaudited net asset value was \$14.58 per share.

QUARTERLY ACTIVITY

During the quarter, Small-Cap Value added to four of its 64 existing positions, eliminated four positions and reduced its holdings in 40 companies. At April 30, 2009, Small-Cap Value held positions in 53 common stocks, the top 10 positions of which accounted for approximately 34% of the Fund's net assets.

Number of Shares

45,000 shares

29,672 shares

28,421 shares

272,750 shares

55,024 shares

1,997 shares

9,383 shares

25,000 shares

167,155 shares

225,600 shares

406,800 shares

100,000 shares

349,918 shares

Positions Increased

Alexander & Baldwin, Inc.
 ("Alex Common")

Genesee & Wyoming, Inc.
 Common Stock
 ("Genesee Common")

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

Pharmaceutical Product
 Development, Inc. Common Stock
 ("PPDI Common")

Positions Decreased

Ackermans & van Haaren N.V.
 ("AvH Common")

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

Alico, Inc. Common Stock
 ("Alico Common")

Bel Fuse, Inc. Class B Common Stock
 ("Bel Common")

Brookfield Asset Management, Inc.
 Common Stock ("BAM Common")

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

Canfor Corp. Common Stock
 ("Canfor Common")

Cross Country Healthcare, Inc.
 Common Stock
 ("Cross Country Common")

Derwent London Plc Common Stock
 ("Derwent 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 April 30, 2009: Lanxess AG, 4.07%; Sapporo Holdings, Ltd., 3.59%; Ackermans & van Haaren NV, 3.58%; Synopsys, Inc., 3.44%; Alexander & Baldwin, Inc., 3.39%; Viterra, Inc., 3.27%; Parco Co., Ltd., 3.21%; Tidewater, Inc., 3.09%; Encore Wire Corp., 3.04%; and St. Mary Land and Exploration Co., 2.90%.



Number of Shares	Positions Decreased (continued)	Number of Shares, Units or Face Amount	Positions Decreased (continued)
7,300 shares	E L Financial Corp. Common Stock ("E L Financial Common")	318,855 shares	Russ Berrie & Co., Inc. Common Stock ("Russ Common")
569,022 shares	Encore Wire Corp., Common Stock ("Encore Common")	450,000 shares	Sapporo Holdings, Ltd. Common Stock ("Sapporo Common")
698,996 shares	FBL Financial Group, Inc. Common Stock ("FBL Common")	123,910 shares	St. Mary Land and Exploration Co., Common Stock ("St. Mary Common")
56,800 shares	Glatfelter Common Stock ("Glatfelter Common")	250,600 shares	Sycamore Networks, Inc. Common Stock ("Sycamore Common")
843,250 shares	Haverty Furniture Co., Inc. Common Stock ("Haverty Common")	280,200 shares	Synopsys, Inc. Common Stock ("Synopsys Common")
133,617 shares	Herley Industries, Inc. Common Stock ("Herley Common")	600,000 shares	Tellabs, Inc. Common Stock ("Tellabs Common")
107,800 shares	Imation Corp., Common Stock ("Imation Common")	125,000 shares	Tidewater, Inc. Common Stock ("Tidewater Common")
252,546 shares	Investment Technology Group, Inc. ("ITG Common")	233,200 units	Timberwest Forest Corp., Units ("Timberwest Units")
65,880 shares	Journal Communications, Inc. Common Stock ("Journal Common")	80,649 shares	Vail Resorts, Inc. Common Stock ("Vail Common")
150,000 shares	Kaiser Aluminum Corp. Common Stock ("Kaiser Common")	154,600 shares	Viterra, Inc. Common Stock ("Viterra Common")
68,600 shares	K-Swiss, Inc. Common Stock ("K-Swiss Common")	18,967 shares	Wacker Neuson SE Common Stock ("Wacker Common")
194,141 shares	Lanxess AG Common Stock ("Lanxess Common")	178,441 shares	Westlake Chemical Corp. Common Stock ("Westlake Common")
106,386 shares	Lexmark International, Inc. Common Stock ("Lexmark Common")	\$6,000,000	W&T Offshore, Inc. 8.25% Senior Notes Due June 15, 2014 ("WTI Senior Notes")
1,993 shares	National Western Life Insurance, Inc. Common Stock ("NWLI Common")		Positions Eliminated
115,900 shares	Parco Company Ltd. Common Stock ("Parco Common")	782,200 shares	CommScope, Inc. Common Stock ("CommScope Common")
16,180 shares	Park Electrochemical Corp. Common Stock ("Park Common")	773,842 shares	Forest City Enterprises, Inc. Common Stock ("Forest City Common")
180,400 shares	Pioneer Drilling Co., Common Stock ("Pioneer Common")	143,823 shares	Superior Industries International, Inc. Common Stock ("Superior Common")
75,000 shares	Precision Drilling Trust Units ("Precision Units")	352,557 shares	Sybase, Inc. Common Stock ("Sybase Common")



QUARTERLY ACTIVITY

As you might infer from the preceding table, Fund Management expended some of its energies on trimming existing positions partly to offset redemptions (which reduced Fund shares outstanding during the quarter by roughly 5%). Despite the decline in share count, the Fund's net assets remained steady at \$1.1 billion, owing to positive performance during the quarter. Since the vast majority of the Fund's investments remained deeply discounted by the market for much of the period (i.e., valuations bordered on ridiculous) and being loathe to sell undervalued assets into panic-stricken markets, Fund Management elected to take "shallow scoops" out of a broad range of positions, rather than selling big chunks from a few holdings. A few positions were eliminated altogether, largely for reasons relating to fundamentals (e.g., valuation or strained balance sheets).

During the chaotic market conditions of the past few months, we received a number of thoughtful questions from our clients and shareholders. For this quarterly report, we thought it would be helpful to share some of those questions and our thoughts with a broader audience.

Q&A WITH THE MANAGER

Given the results of the past year, is the Fund's investment philosophy broken?

In raising this question with my colleague Charlie Page, he reminded me of a Ted Williams quote: "Don't ever let anyone monkey with your swing."¹ Baseball analogies aside, the short answer is no. As the financial crisis unfolded, sometimes in dramatic fashion, our mission remained unchanged: finding companies with impregnable financial positions run by competent management teams who have evidenced good track records as both owners and operators in businesses with one or more identifiable paths to growth, but only where the aforementioned ingredients come at sensible valuations (i.e., a wide discount to our conservative

estimate of underlying economic value). On the other hand, we remind ourselves not to be overly dogmatic about the application of our philosophy and to be on the lookout for biases and blind spots. Historically, our philosophy and its application have protected investors from the loss of capital and compounded capital at attractive rates.

How do you handicap the macro outlook?

A wise value-investor once said, "Invest from the bottom-up, worry from the top-down." This sentiment aptly describes Third Avenue's approach. As value investors, we tend to give considerably less weight to macro considerations (e.g., the general level of interest rates, the stock market, unemployment, GDP and the like) than to company fundamentals. It doesn't mean we give no weight to these considerations; we would be remiss if we simply ignored such factors. We might incorporate the anticipated effects of the "macro factors," such as higher corporate taxes, more regulation, or diminished credit availability, into our valuation work in the form of compressed multiples on earnings and cash flow, or adjusting longer-term earnings power of a given business. Our experience suggests that owning common stocks of well-financed and reasonably managed companies, purchased at the right prices, generally avoids permanent capital loss even through difficult business cycles and economic downturns.

The Fund now has a portion of its assets in distressed debt. How large might that portion get? How has it performed?

At April 30, 2009, the Fund held four different distressed debt securities, which accounted for approximately 4.5% of the Fund's total assets. Fund Management's view about the role of distressed debt within the Fund, which we discussed in our First Quarter 2009 letter, can be summarized as follows:

- Whether the instruments remain performing loans or undergo restructuring, each of the securities ought to

¹ Williams, who spent his entire 19-year career with the Red Sox, allegedly shared this advice with Carl (Yaz) Yastrzemski, another baseball legend. You know it's bad when yours truly, a Yankee fan, resorts to quoting a Red Sox player!



provide “equity-like” returns, with superior downside protections, a narrower set of outcomes and better defined time horizons than those found with equity investments;

- The performance of these instruments will likely have even less correlation with general equity markets than that of the common stocks held by the Fund, but much more to do with the fundamentals of the business and the “moving parts” of the capital structure that tend to dominate distress investors’ analyses;
- Cash paying instruments serve as an “anchor to windward.” Should economic conditions remain weak in coming periods, the Fund then gets “paid to wait.”

As for the size or allocation question, the investment risks, likely outcomes and return profiles of any idea are “put under the microscope” along side of each other. Ideas – debt or equity – in effect compete under the same set of stringent criteria for implementation. Based on our current inventory of ideas you might expect to see one or two new names added to the portfolio during 2009. Putting aside changes in market value, I would not anticipate the distressed “sub-portfolio” to get much larger than 8% - 10% of the Fund.

Three of the four distressed debt securities have appreciated this quarter; however, the Fund’s investment in MBIA Surplus Notes declined almost 35% during the quarter following negative developments at that company, as outlined in the accompanying letter from Third Avenue Value Fund. Unfortunately, this position was relatively large (and influential), as it had been initiated when the Small-Cap Value Fund had a much larger asset base and was sized accordingly. The disappointing results, thus far, suggest a combination of a poor assessment of management and bad luck. Conversely, two of the Fund’s distressed debt securities appreciated significantly. For example, late last year the Fund purchased WTI Senior

Notes at a yield to maturity of 22%. At period end, the notes had appreciated 7% to 8%. The Swift Term Loan owned by the Fund appreciated more than 30% during the quarter. Undoubtedly, some of these positive changes reflected the general rebound in debt markets; but, positive company-specific news flow also helped.

Discuss one of your most difficult investments.

Sapporo Holdings and Parco Co., the Fund’s two investments in Japan, have been among the Fund’s largest detractors from performance during the past year.² The share price performance has been much more discouraging, however, than has the underlying business development, which I would characterize as “fair.” Fund Management initiated positions in Sapporo and Parco in early 2007, when our research efforts turned up few qualifying investments among U.S. equities, particularly in the small-cap arena. Both Sapporo Common and Parco Common, which we first wrote about in our letter dated April 30, 2007, appeared cheap relative to their valuable sets of assets, were conservatively financed and had reasonable prospects of growing per share business values. Sapporo, which I have called a real-estate company masquerading as a beer company, remains undermanaged by almost any Western standard, though the case for margin/profit improvement remains compelling. Viewed from a year-over-year perspective, Sapporo evidenced a number of positive developments during 2008, including:

- The sale of a 15% stake in its Yebisu Gardens office complex to Morgan Stanley for approximately \$500 million (implying a \$3.3 billion value for the complex versus a current company market capitalization of approximately \$1.6 billion). In-place rents at this relatively attractive Tokyo property, even in today’s depressed market, remain well below current market levels;
- The closure of its Osaka brewery, which removed excess brewing capacity and improved margins, setting the

² The Fund’s *unrealized* loss on these positions, which currently approximates \$50 million, would undoubtedly be worse were it not for Fund Management’s decision to remain unhedged in the Japanese Yen at the inception of the investments.



stage for future re-development or monetization of the site;

- A modest reduction in debt and increased dividend (now yielding approximately 1.7%);

Parco, a real estate operating company focused on urban retail properties, appears to have managed reasonably well, despite a dreary economic backdrop in Japan. Cash flow and book value per share each increased modestly, a trend made more impressive when considering the company's fiscal year, which ended in February, included several months of the global financial crisis. The company has modest capital needs this year and has procured a new site in Singapore as part of its first phase of international expansion. Further growth may derive from redevelopment efforts at existing properties and expanding within other parts of Asia.

Were these companies domiciled in North America or Europe, it's likely they would not survive as standalone, going concerns. Given the quality of their assets, potential for operational improvements, particularly in Sapporo's case, and cheap valuations, no doubt Sapporo and Parco would draw the attention of more ambitious control investors with bigger plans. To Westerners like us, Japan remains an enigma wrapped in a conundrum where the biggest investment risks, as far as we can tell, include: i) management's capital allocation practices and disregard for shareholders; ii) an uninspiring set of macro and demographic trends; and iii) the lack of a dynamic takeover market or market for control. Contrasted with an investment in a debt instrument, passive common stock investments tend to provide their owners with a much higher degree of uncertainty about the timing of value realization (i.e., "time horizon" risk). In the case of Sapporo Common and Parco Common, I think this risk is particularly acute.

Neither of these businesses would be considered as what Berkshire's Buffett might term as either "inevitables" or "cigar butts."³ On the investment spectrum, Sapporo Common and Parco Common probably lie somewhere between those two extremes. One prospective catalyst for investors in Japanese real estate-related companies is a forthcoming accounting standard that will require the disclosure of appraised values of their property holdings starting in the next fiscal year. Such disclosure has the potential to focus both management and shareholder attention on the asset values embedded within each company. With the shares languishing at enormous discounts to any sort of conservative estimate of net asset value and with the potential for further positive development in those values, for the moment, we remain patient and optimistic.

How are companies in the portfolio faring during the business downturn?

As we alluded to in our last letter, most of the portfolio companies produced solid results in 2008, despite a very weak fourth quarter. As we write, many companies are reporting results for the first quarter; weak results have tended to carry over from the prior quarter and management teams, by and large, remain quite cautious about the balance of the year. For the moment, managements are doing what we would expect: cutting inventories and working capital; reassessing operational needs; pulling back on capital expenditures and opportunistically tapping the capital markets or considering acquisitions. Just a few examples from the Fund's holdings illustrate that difficult business conditions have not discouraged management teams from further strengthening their companies and their balance sheets:

- Lanxess AG, a European chemicals group, announced that it sold €500 million of five-year

³ Cigar butts, as Buffett referred to these types of investments, are usually lousy companies with beaten down stocks trading at a discount to working capital or cash. Like a cigar butt on the street, they might be disgusting, but good for one last puff. In contrast, the inevitables are stocks like Coca Cola with powerful global franchises underlying them; a stock one could hold "forever."



bonds with a yield of 7.75%. Not only is this attractive financing from the company's perspective, but it adds to the company's war chest for further internal growth or acquisitions;

- Cimarex Energy, an independent oil and gas exploration and production company, announced that its banks had increased the company's credit facility to \$800 million, from \$500 million. The banks also reaffirmed the company's borrowing base even in the face of declining natural gas prices, remarkable if you have watched the pain in the energy sector. In the fourth quarter of last year, Cimarex used existing cash and spent \$180 million opportunistically buying up reserves and acreage from Chesapeake Energy, a large natural gas producer that had become a distressed seller of assets.
- Electronics for Imaging, a maker of hardware and software for printing applications, monetized a portion of its real estate assets earlier this year, selling entitled land and an office building for \$137 million, adding to the company's already formidable cash

board. Cash now accounts for more than 50% of the company's market capitalization and the Board has authorized a large share repurchase program.

“Almost without exception, the Fund’s portfolio companies remain conservatively financed. Such conservatism ought to provide long-term staying power, even under a prolonged business downturn, and enable flexibility in operations and strategic planning.”

Almost without exception, the Fund's portfolio companies remain conservatively financed. Such conservatism ought to provide long-term staying power, even under a prolonged business downturn, and enable flexibility in operations and strategic planning.

I hope the Q&A format was of some use in learning more about how we think and how our portfolio companies are progressing.

I look forward to writing you again when we publish our Third Quarter report dated July 31, 2009. Thank you for your continued support.

Sincerely,

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



Third Avenue Real Estate Value Fund



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

Dear Fellow Shareholders:

At April 30, 2009, the end of the second fiscal quarter of 2009, the unaudited net asset value attributable to the 67,803,476 shares outstanding of the Third Avenue Real Estate Value Fund (the "Fund") was \$14.92 per share. This compares with an unaudited net asset value of \$13.46 per share at January 31, 2009, and an audited net asset value of \$26.81 per share at April 30, 2008, adjusted for subsequent distributions to shareholders. At May 12, 2009, the unaudited net asset value was \$15.67 per share.

QUARTERLY ACTIVITY

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

Principal Amount	New Positions Acquired
\$10,000,000	Macerich Partnership L.P. Term Loan due April 2010 ("Macerich Term Loan")
\$4,000,000	Brandywine Operating Partnership 3.875% Convertible Senior Notes putable October 2011 ("Brandywine Senior Notes")
\$10,000,000	Brookfield Asset Management, Inc. 7.13% Senior Notes due June 2012 ("Brookfield Senior Notes")
\$10,000,000	General Growth Properties Term Loan Tranche A due February 2010 ("General Growth Term Loan")
\$3,000,000	LandSource Communities First Lien Super Priority DIP Revolver due May 2009 ("LandSource DIP Loan")
\$5,000,000	LandSource Communities Development LLC Senior Term Loan due February 2013 ("LandSource Senior Term Loan")
8,709,500 shares	CapitaLand Ltd. Common Stock ("CapitaLand 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 April 30, 2009: Henderson Land Development Co., Ltd., 6.71%; Forest City Enterprises, Inc., 6.37%; Brookfield Asset Management, 5.64%; Wheelock & Co., Ltd., 5.57%; CapitaLand, Ltd., 4.81%; Hammerson PLC, 4.81%; Hang Lung Properties, Ltd., 4.70%; Vornado Realty Trust, 4.09%; British Land Co., PLC, 3.48%; and Derwent London PLC, 3.40%.



Number of Shares	Positions Increased (continued)	Principal Amount or Number of Shares	Positions Eliminated
6,067,082 shares	Hammerson plc Common Stock ("Hammerson Common")	\$5,000,000	iStar Financial, Inc. Floating Rate Senior Notes due September 2009 ("iStar Floating Senior Notes")
63,056 shares	Vornado Realty Trust Common Stock ("Vornado Common")	\$20,000,000	iStar Financial, Inc. 5.15% Senior Notes due March 2012 ("iStar 5.15% Senior Notes")
Positions Decreased			
195,234 shares	Associated Estates Realty Corp. Common Stock ("Associated Common")	408,775 shares	Avatar Holdings, Inc. Common Stock ("Avatar Common")
1,400,000 shares	Brookfield Asset Management Common Stock ("Brookfield Asset Management Common")	3,215,850 shares	Brookfield Properties, Inc. Common Stock ("Brookfield Properties Common")
5,194,000 shares	Hang Lung Properties Ltd. Common Stock ("Hang Lung Common")	714,775 shares	Cousins Properties, Inc. Common Stock ("Cousins Common")
3,967,000 shares	Henderson Land Development Co. Ltd. Common Stock ("Henderson Common")	10,000,000 shares	Wharf Holdings Ltd. Common Stock ("Wharf Common")
785,600 shares	Killam Properties, Inc. Common Stock ("Killam Common")		
700,000 shares	Mitsubishi Estate Co. Ltd. Common Stock ("Mitsubishi Common")		
850,000 shares	Mitsui Fudosan Co. Ltd. Common Stock ("Mitsui Fudosan Common")		
711,900 shares	Parco Company Ltd. Common Stock ("Parco Common")		
1,743,200 shares	ProLogis Common Stock ("ProLogis Common")		
750,000 shares	St. Joe Company Common Stock ("St. Joe Common")		
4,693,000 shares	Wheelock & Co Ltd. Common Stock ("Wheelock Common")		

DISCUSSION OF QUARTERLY ACTIVITY

The Fund initiated a new position in Macerich Term Loan at a 34% yield to maturity and added to two existing performing debt positions as pricing remained at very attractive levels (Brandywine Senior Notes, 23.5% yield to put; Brookfield Senior Notes, 21.2% yield to maturity). The Fund also increased its debt positions in two distressed (bankrupt) companies – LandSource and General Growth. LandSource is expected to emerge from bankruptcy this summer as a reorganized and debt-free company, while General Growth recently (April 16, 2009) filed for bankruptcy protection in what could be a long and expensive case.

The Macerich Term Loan is an obligation of Macerich Partnership L.P. and is guaranteed by its property subsidiaries (generally, the mall properties are owned by these subsidiaries). Macerich Partnership L.P. is a subsidiary of Macerich Company (the publicly-traded REIT). As noted last quarter, the Fund acquired Macerich Convertible Senior Notes, which are issued by Macerich



Company and guaranteed by Macerich Partnership L.P. (but not its subsidiaries). Since the Term Loan has the benefit of property subsidiary guarantees, it is structurally senior to the Convertible Notes. The Macerich Term Loan (due April 2010) was acquired at 73% of face amount and, if held to maturity, will yield 34% annualized (based on a holding period of one year). The Convertible Notes (due March 2012) were purchased at an average yield to maturity of 31% (based on a holding period of about 3.3 years). Fund Management places a very high probability on the likelihood that the Term Loan and Convertible Notes will remain performing loans. In the unlikely event of default, both debt issues appear to be fully covered in a restructuring or liquidation.

The Fund added to its position in LandSource Senior Term Loan at 15% of face amount. Fund Management remains actively involved with the LandSource restructuring process by serving on the Senior Loan Steering Committee. The Plan of Reorganization filed with the Bankruptcy Court anticipates the need to raise additional capital through a rights offering to Senior Term Loan holders (who will own the majority of the equity in the reorganized company). The Fund and other Steering Committee members expect to fully subscribe and “backstop” the rights offering to the extent other Senior Term Loan holders choose not to participate. Upon emerging from bankruptcy, LandSource will be a debt-free, private company. Fund Management will have the right to designate one of the company’s seven directors. While the near-term outlook for residential land development in Los Angeles County looks grim, Fund Management is excited about the long-term prospects of owning a substantial stake (at a very low cost) in what is among the best located master-planned communities in the United States.

The Fund added to its position in General Growth Term Loan at 19% of face amount. As expected, General Growth filed for protection under Chapter 11 of the U.S. Bankruptcy Code. The General Growth bankruptcy is the largest real estate bankruptcy in U.S. history and will likely

take several years and many millions of dollars in professional fees before resolution. Nonetheless, Fund Management believes that the General Growth Term Loan is likely to be a “fulcrum” security that will participate in General Growth’s reorganization. That participation should be in the form of: (a) a reinstated performing loan, (b) equity in the reorganized company, (c) cash settlement, or (d) some combination of each. At less than 20 cents on the dollar, the Fund’s investment in the General Growth Term Loan seems well positioned to benefit from the reorganization process.

The Fund eliminated its positions in iStar Floating Senior Notes and iStar 5.15% Senior Notes, based on the company’s deteriorating financial condition and its recently announced debt restructuring. iStar restructured its bank credit agreements by providing the bank lenders a pool of collateral, consisting of previously unencumbered assets including loan assets and its portfolio of corporate tenant lease assets. Following the bank restructuring, the company announced a voluntary exchange offer for a portion of its senior unsecured notes pursuant to which old notes will be exchanged for new secured second-lien notes. The iStar 5.15% Senior Notes (due March 2012) would be exchanged for new 10% notes due in June 2014 issued for 60% of the original face amount. In addition, the company commenced a tender offer for a portion of the iStar Floating Senior Notes (due September 2009) at 90% of face amount. Rather than participate in the debt restructuring, the Fund sold its iStar 5.15% Senior Notes at 40.75% of face amount (cost basis was 45.5%) and its iStar Floating Senior Notes at 88.5% of face amount (cost basis was 66.25%). The Fund’s return on iStar Senior Notes was positive overall (approximately 12.9% annualized return), but the company’s financial position has deteriorated to the point where Fund Management’s original assessment of near-par returns seems less likely.

The Fund initiated a new position in Kimco Common. Kimco Realty Corp. is the largest owner of neighborhood and community shopping centers in North America. Kimco has historically financed its balance sheet with a



combination of bank credit facilities, unsecured corporate notes and non-recourse mortgage debt (primarily in its joint ventures) in addition to periodically issuing preferred and common stock. Kimco has approximately \$2.6 billion of debt maturities through 2011. The credit crisis and lower property values created uncertainty about Kimco's ability to retire its maturing obligations over the next few years. This put extreme pressure on the price of Kimco Common, to the point where it was trading at nearly a 50% discount to conservative estimates of net asset value. Fund Management believes that while Kimco's debt maturities appear problematic, they are not insurmountable given the company's ability to raise liquidity through a combination of property sales, secured financing and, if necessary, issuing dilutive equity. The Fund acquired 1.5 million shares of Kimco Common at \$7.96 per share in March, shortly before receiving a cash dividend of 44 cents per share (effectively reducing the cost to \$7.52 per share). The Fund acquired an additional 100,000 shares on April 3rd, when Kimco issued 105.2 million shares of common stock at \$7.10 per share – raising \$747 million. The equity issuance was highly dilutive to common shareholders (increasing outstanding shares by 39%), but served to lift the cloud of uncertainty regarding the company's ability to continue as a going concern. It also appears to have motivated short-sellers to cover their positions, which resulted in a substantial rally in the stock price. In late April, the trading price of Kimco Common rallied substantially and the Fund took advantage of the high volatility by selling June 2009 covered calls with a strike price of \$12.50, earning a premium of \$1.43 per share. After taking into account the 44 cent dividend and the \$1.43 call premium, the Fund's basis in Kimco Common is approximately \$6.06 per share. If the shares do get called at \$12.50 upon or prior to the expiration of the call options, the Fund's investment will have more than doubled in less than four months.

CapitaLand and Hammerson each completed rights offerings in which the Fund acquired common shares to avoid being diluted. Singapore-based CapitaLand issued one right for every two shares outstanding, with each right

entitling the holder to buy one share of common stock at Singapore \$1.30, representing a 45% discount from the pre-announcement trading price. Hammerson issued seven rights for every five shares outstanding, with each right entitling the holder to buy one share of common stock at £1.50, representing a 62% discount from the pre-announcement trading price. In both instances, the issuance of additional shares was dilutive to shareholders that chose not to participate in the offering. The Fund exercised its full entitlement. Since the rights offerings were announced, both CapitaLand Common and Hammerson Common have traded substantially higher, reflecting investor sentiment that the companies' balance sheets are sound.

The Fund reduced or eliminated several common stock holdings, primarily for portfolio management reasons (e.g., to readjust position sizes) and to raise cash in expectation of additional opportunities to buy high-yielding performing debt securities. The common stocks sold for portfolio management reasons and their respective position size changes since last quarter are illustrated below. (Note: the percentage changes reflect price changes in addition to securities sales.)

Holding	Percentage of Net Assets	
	at 1/31/09	at 4/30/09
Brookfield Asset Management Common	8.3%	5.6%
Brookfield Properties Common	1.8	0.0
Hang Lung Common	5.1	4.7
Henderson Common	7.3	6.7
Mitsubishi Common	4.0	3.0
Mitsui Fudosan Common	4.2	2.9
Parco Common	2.7	1.4
ProLogis Common	3.7	1.6
St. Joe Common	4.9	3.0
Wharf Common	2.6	0.0
Wheelock Common	5.6	5.6

Brookfield Properties Common was eliminated primarily because Brookfield Asset Management owns about 50% of Brookfield Properties. Fund Management believes that holding a position in Brookfield Asset Management



Common gives the Fund adequate exposure to Brookfield Properties' assets – and at a cheaper price. Wharf Common was eliminated for a similar reason – Wheelock & Company owns about 50% of Wharf Holdings.

The remaining reductions or eliminations were primarily investment decisions based on Fund Management's view that long-term upside in these holdings appears limited compared to other investment opportunities. These securities include Associated Common, Killam Common, Avatar Common and Cousins Common.

IT'S AN "EQUITY CRISIS" FOR U.S. REAL ESTATE, NOT A "CREDIT CRISIS"

The amount of debt taken on by public and private real estate companies was unprecedented over the last eight years. Higher stock prices, cheap debt and less stringent underwriting standards gave companies the opportunity to "leverage up" and consistently show higher returns on equity. The higher debt levels were masked by higher stock prices since a primary metric of a company's financial soundness was its "debt to total market cap." Total market cap equals the value of the company's common stock at the market price plus all outstanding debt and other quasi-equity securities (e.g., preferred stocks). A company whose stock price has declined 75% may have seen its debt to total market cap increase from 50% to 80% simply as a result of its stock price decline. Debt to total market cap doesn't necessarily depict financial soundness because it is a market measure rather than a financial measure. The market price of a company's stock has no bearing on the company's ability to meet its debt obligations, except to the extent a higher stock price might enable the company to raise equity at relatively attractive prices (i.e., non-dilutive). Unfortunately, during the bull market run-up, instead of issuing cheap equity, most U.S. companies were issuing cheap debt (much in the form of convertible notes with very low coupons and, unfortunately, five-year holder put features). Instead of issuing common shares, they were buying them back in open-market share buybacks –

shrinking the company's capital base to generate higher returns on equity.

Most publicly-traded U.S. real estate companies are going to have to raise substantial equity to stay alive. Since the beginning of 2009, U.S. REITs have raised over \$7 billion in highly dilutive equity offerings. With U.S. REIT stock prices down an average of 60% from their peaks in February 2007, the need to issue additional common shares has become a painful, but necessary, reality for boards of directors. Issuing common shares to shore up a company's balance sheet is clearly good for the company and its creditors. But for owners of common equity, the benefits are not so clear. The chairman and chief executive officer of a large U.S. REIT told me recently: "I would gladly give up half of my net worth if I could be assured that I could save the other half." This logic obviously helped with the company's decision to issue a substantial number of common shares at a steep discount to intrinsic value. The uncertainty of the availability and cost of credit over the next few years has forced companies to deal with maturing debts by raising equity. The dilemma facing the company boards and management is: do we try to stick it out and hope that the credit markets will thaw in time for us to refinance our maturing debts, or do we swallow the bitter pill and save the company now, but permanently dilute existing shareholders? Fund Management is of the opinion that saving the company and assuring it can continue as a going concern should be the highest priority.

The fact that U.S. real estate companies have successfully raised over \$7 billion of new equity so far in 2009 is a testament to the quality of the assets these companies own. Fund Management expects that many more real estate companies will soon be issuing going-concern-saving equity and those companies that have already issued equity will be back for more. The only sure way for companies to once again have access to relatively inexpensive debt will be to shore up their balance sheets with additional equity. Industry "experts" estimate that in order for U.S. REITs to return to historical long-term leverage levels (based on debt to total market cap), an additional \$80 to \$90 billion



of equity will need to be raised. Regardless if this figure proves to be high or low, it illustrates that U.S. real estate companies are unlikely to borrow their way out of this “equity crisis.”

The byproduct of equity offerings has been credit enhancement. As noted above, Kimco’s equity offering clearly credit enhanced the company’s outstanding debt issues. Similarly, ProLogis recently issued common shares, raising over \$1 billion. The Fund holds \$38.9 million of Prologis Convertible Senior Notes that have appreciated substantially as a result of the company’s dramatically improved liquidity position.

As of April 30, 2009, 22% of the Fund’s net assets are invested in the common stocks of U.S. real estate companies – the lowest in the Fund’s 10½ year history. U.S. REITs make up 8%, including Kimco Common (1.9%), ProLogis Common (1.6%) and Vornado Common (4.1%), and U.S. real estate operating companies make up 13%, including Forest City Common (6.0%), St. Joe Common (3.0%), Tejon Ranch Common (1.8%) and Consolidated Tomoka Common (1.7%). The Fund’s limited exposure to U.S. real estate equities reflects Fund Management’s concerns that the deleveraging of U.S. real estate is still in the early stages and there is no clear picture

of how much equity can be raised – and at what cost. The Fund’s U.S. debt securities holdings (12.7% at quarter-end, as compared to 0% at April 30, 2008) should be the beneficiaries of the credit enhancement provided by future equity offerings.

As discussed in previous shareholder letters, despite the current cyclical downturn, the Fund’s common stock holdings in Hong Kong and Japanese issuers seem very safe, given these companies’ strong balance sheets. Fund Management does not expect that these companies will need to issue equity anytime soon, and they each seem well positioned to take advantage of opportunities in their respective markets.

I look forward to writing to you again, when we publish our Shareholder Letter for the period ending July 31, 2009.

“The Fund’s limited exposure to U.S. real estate equities reflects Fund Management’s concerns that the deleveraging of U.S. real estate is still in the early stages and there is no clear picture of how much equity can be raised – and at what cost.”

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 April 30, 2009, the unaudited net asset value attributable to the 84,376,161 shares outstanding of the Third Avenue International Value Fund (the "Fund") was \$11.86 per share, compared with the Fund's unaudited net asset value at January 31, 2009 of \$11.34 per share, and an unaudited net asset value of \$19.06 per share at April 30, 2008, both adjusted for a subsequent distribution to shareholders. At May 12, 2009, the unaudited net asset value was \$12.71 per share.

QUARTERLY ACTIVITY:

In the most recent quarter of operations, the Fund established new positions in the common stock of three companies, added to positions in the common stocks of six companies, eliminated its holdings in nine companies and reduced its holdings in nine companies.

Number of Shares	New Positions Acquired
1,270,888 shares	Leucadia National Corporation Common Stock ("Leucadia Common")

Number of Shares	New Positions Acquired (continued)
10,482,120 shares	Tenon Limited Common Stock ("Tenon Common")
112,956 shares	Weyerhaeuser Company Common Stock ("Weyerhaeuser Common")
	Positions Increased
1,000,000 shares	Catalyst Paper Corporation Common Stock ("Catalyst Common")
93,372 shares	EnCana Corporation Common Stock ("EnCana Common")
228,767 shares	GlaxoSmithKline PLC Common Stock ("GSK Common")
868,902 shares	Sampo Oyj – A shares ("Sampo Common")
8,592,000 shares	United Microelectronics Corp. Common Stock ("UMC Common")
200,000 shares	WBL Corp. Ltd. Common Stock ("WBL Common")
	Positions Decreased
288,752 shares	ABB Grain Ltd. Common Stock ("ABB Common")
435,284 shares	Antarchile S.A. Common Stock ("Antarchile Common")
90,217,400 shares	Asia Plus Securities PCL Common Stock ("Asia Plus Securities Common")
2,256,700 shares	Dundee Precious Metals, Inc. Common Stock ("Dundee Common")
996,000 shares	Guoco Group Limited Common Stock ("Guoco Group 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 April 30, 2009: ABB Grain, Ltd., 6.53%; Netia S.A., 5.29%; Yuanta Financial Holding Co., Ltd., 5.29%; WBL Corp., Ltd., 5.10%; Vitterra, 4.47%; Compagnie Nationale A Portefeuille, 3.69%; Brit Insurance Holdings PLC, 3.63%; Munich Re, 3.37%; Hutchison Whampoa, Ltd., 3.19%; and United Microelectronics Corp., 3.18%.



Number of Shares	Positions Decreased (continued)
5,882,000 shares	Liu Chong Hing Investment Ltd. Common Stock ("LCHI Common")
75,976 shares	Newmont Mining Corporation Common Stock ("Newmont Common")
10,306,000 shares	Vitasoy International Holdings Ltd. Common Stock ("Vitasoy Common")
577,000 shares	Viterra, Inc. Common Stock ("Viterra Common")

Positions Eliminated

409,500 shares	Capital Nomura Securities PCL Common Stock ("CNS Common")
6,642,287 shares	CSR Limited Common Stock ("CSR Common")
38,126,960 shares	Hotung Investment Holdings Limited Common Stock ("Hotung Common")
652,300 shares	Ichiyoshi Securities Company, Limited Common Stock ("Ichiyoshi Common")
330,387 shares	Imerys S.A. Common Stock ("Imerys Common")
4,077,900 shares	KGI Securities Thailand PCL Common Stock ("KGI Common")
10,646,300 shares	Nippon Sheet Glass Company, Limited Common Stock ("Nippon Sheet Glass Common")
13,575,158 shares	President Securities Corp. Common Stock ("President Securities Common")
2,520,050 shares	Sompo Japan Insurance, Inc. Common Stock ("Sompo Japan Common")

REVIEW OF QUARTERLY ACTIVITY

The declines in equity prices in the recent quarter presented Fund Management with opportunities to purchase some securities at unusually attractive valuations.

Leucadia National Corp. ("Leucadia"), a U.S.-listed holding company, carries one of the country's most impressive long-term investing track records. Historically, Leucadia's stock has rarely been inexpensive, though

during the first quarter of 2009, mark-to-market losses on several of its publicly-listed investments dragged down Leucadia's stock price to unusually attractive levels.

Since its founding in the late 1970s, Leucadia has been run by Ian Cumming and Joe Steinberg, who are responsible for having compounded the net asset value of the company's portfolio by slightly less than 20% per annum, over the last 29 years. Leucadia's investment philosophy might rightly be described as orthodox value investing, in that its investments tend to be long term in nature and are generally focused on companies or industries in some stage of distress. However, one of the most appealing traits of Leucadia's historical investment activity has been the inventive way in which it has invested in various parts of its investee companies' capital structures, often securing exclusive terms, elements of control and unique securities, such as royalty streams. In many cases, the context enabling Leucadia to negotiate preferential investment terms is one in which the investee company has few, if any, alternative sources of capital at its disposal.

The largest investments within Leucadia's portfolio today include equity and royalty interests in a large-scale Australian iron ore mining operation, and investments in a U.S.-based full-service investment banking and securities firm at both the parent company and operating subsidiary levels. As an added attraction, Leucadia carries tax attributes of exceptional size, which should provide protection from taxes on future realized investment gains, should they eventuate.

Weyerhaeuser Co. ("Weyerhaeuser") is a U.S.-listed forest products company with timber assets that are considered among the highest quality on a global basis. Nearly two-thirds of its merchantable inventory is located in the Pacific Northwest, an area that is home to highly-productive timberlands and is well located to export high-quality softwood to Asia. In addition to its timber operations, the company is one of the 20 largest homebuilders in the United States, focusing on single-family housing and land development. Weyerhaeuser is also one of the largest



manufacturers and distributors of wood products in North America, with its primary product being softwood lumber, which provides structural framing for residential and commercial structures. Like the homebuilding segment, the wood products business has been hard hit by the downturn in residential housing markets. In addition to the above mentioned businesses, the Company owns a number of converting assets manufacturing *inter alia* softwood pulp, newsprint, publications papers and paper board for liquid packaging.

The current valuation attributed to the entire company imputes an unusually modest valuation to the company's timber resources, which is especially striking given the divisible nature of the company's assets, and the valuations realized to date by the company's divestiture of selected converting assets.

During the quarter, the Fund eliminated its holding in CSR Common, an Australian conglomerate with operations in the area of building products, glass, aluminum and sugar. In the face of approaching debt maturities over the next two years, the company opted to launch a rights issue rather than cut back its capital expenditure program and reduce its generous dividend. Viewing this combination of actions as less than prudent, we chose to eliminate this holding.

INVESTING IN INSURANCE

In the last shareholders' letter, we discussed our approach to thematic investing, highlighting our stubborn insistence on bottom-up, individual security selection. As an example of an "accidental theme" in the portfolio, we mentioned our current exposure to insurance and reinsurance stocks,

which now represent the largest sector weighting in the Fund (15.63% as of April 30, 2009). We think it is appropriate to elaborate in some detail on how we think about insurance companies, given the importance of the sector to Fund shareholders.

The potential attractions of insurance company stocks are widely known and we will not dwell on these in great detail. Conceptually, a well-run insurance company resembles a margin account with negative interest cost:

- The insurance business raises cash from customer premiums (at negative cost as long as it makes underwriting profits).

“We focus first and foremost on return *of* capital before return *on* capital, placing the highest priority upon avoiding permanent impairments of capital not unlike those that have recently befallen some of the largest global financial services companies.”

- Premiums are invested in a portfolio of securities while the company awaits loss notifications, and generate investment income until the cash is paid out to claimants.
- As long as the company keeps receiving premiums and reinvesting income, it engages in effective dollar-averaging of its portfolio.

In common with our general investment process, insurance company securities must meet our “safe and cheap*” benchmark to be considered for inclusion in any portfolio. However, the idiosyncratic nature of the insurance industry and its accounting practices require that we look at a somewhat different set of characteristics from industrial companies or other financial services companies.

Our first priority is and always has been to consider the safety of our investments. We focus first and foremost on return *of* capital before return *on* capital, placing the highest priority upon avoiding permanent impairments of capital not unlike those that have recently befallen some of

* “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.



the largest global financial services companies. Thus, in our analysis of insurance companies, we limit our selection to only those which exhibit the following characteristics:

1. Core underwriting business that reliably generates cash

We look for companies that operate in markets whose dynamics are broadly understandable and which have historically delivered – and can reasonably be expected to continue delivering over the long term – underwriting profits and cash flow. Examples would include primary insurance businesses in countries with high barriers to entry (such as Germany and Japan), slow-growing life insurance businesses (such as Sampo Oyj in Finland), and reinsurance businesses at the time of capital shortage and strengthening rates, such as now. We are reluctant to invest in fast growing life insurance businesses that may report accounting profits but consume cash to fund acquisition costs.

2. Conservative reserving and accounting policies

We carefully examine companies' historical track records to determine whether they have a tendency towards aggressive accounting policies that flatter current profits, or whether they have shown conservatism. Insurance accounting relies on estimates much more than accounting at non-financial companies; the "cost of goods sold" (notably losses and loss adjustment expenses) is unknown at the time of sale and in many cases will not be known for months or years thereafter; managements must make estimates of ultimate losses and, thus, have a much greater degree of influence over reported profits in the short term than managements of non-financial companies. We limit our investments to those companies that have typically shown consistent initial overestimates of losses and, thus, underestimates of reported earnings. In any event, our analysis does not emphasize near-term reported earnings, which aggressive management teams may seek to influence.

In life insurance, where the issues are slightly different and accounting standards are usually not comparable across countries, we pay particular attention to embedded value¹ disclosure, and especially to management assumptions that

underlie the calculation of embedded value. Here again, it is extremely easy and tempting for the managements to "improve" the reported number by tweaking forecasted inputs such as expected investment returns and discount rates. Conservative managements resist such temptation.

In general, we find that insurance companies that pursue a stated goal of delivering fast growing or consistently growing earnings per share, or high return on equity, tend towards more aggressive accounting and underwriting practices than companies which focus more on long-term net asset value growth. We prefer the latter, while seeking to avoid the former.

3. Understandable and resilient investment portfolio

We prefer companies that do not attempt to generate stellar returns on their investment portfolio by chasing high-yielding or highly risky securities. Investment management at insurance companies should concentrate on preservation of capital and the ability of the company to pay claims promptly even in the most stressful times.

In order for us to judge the investment exposures, the companies have to provide adequate disclosure. We become concerned when we see "black-box" securities or asset classes on the balance sheet, securities likely to suffer impairments, or securities that we consider inappropriate for the business that the company engages in (such as a large weighting in equity securities for a company which writes predominantly short-tail policies).

4. Excess capital

Unfortunately, there is no single or unambiguous measure of capital adequacy for insurance companies. Capital requirements vary from segment to segment and from country to country, and very often the companies themselves can give only vague answers about the amount of excess capital they have.

Instead of relying on simple quantitative measures, we examine a company's capital position from several angles. First, we look for a significant capital cushion above

¹Embedded value is the present value of future profits on existing insurance policies plus adjusted net asset value (after deducting goodwill).



regulatory requirements, such that even in a reasonable worst-case scenario the company wouldn't be forced to access capital markets, perhaps at inopportune times, in order to support the business. Second, we look at the dividend-paying ability from regulated subsidiaries to gauge the financial position of the holding or parent company; sometimes, excess capital at subsidiaries may not be available to service the parent company's liabilities. Third, we check that the company does not rely too much on reinsurance or retrocession; large reinsurance recoverables present a counterparty risk. Finally, we try to make sure that the company will not need to access capital markets to meet foreseeable liabilities, such as debt maturities, customer acquisition funding, etc. Given the capriciousness of capital markets, we prefer companies which do not need recurring access to them.

5. Holding company indebtedness

Following on from the above comment regarding safety of our invested capital, we have had a generalized aversion to insurance companies which have debt of any significance at the holding company. Sometimes, as alluded to above, cash flows from subsidiaries may not be available to service debt at the holding company level, which could, again, place such a company at the mercy of capital markets.

Once all of our safety criteria have been met, we can proceed to the next level and determine the cheapness of the potential investment. We use the conservative benchmark of run-off or liquidation value; in other words, what would the company be worth if it stopped writing new business, shut down operations, and limited itself to paying off its contractual obligations and returning residual capital to shareholders. For non-life insurance companies, stated book value can serve as a reasonable starting point for an estimate of run-off value; for life insurance companies, embedded value serves the same purpose. In both cases, adjustments usually have to be made for accounting or business idiosyncrasies, such as deferred acquisition cost accounting ("DAC"), or lack of reserving for short-tail catastrophe risk.

The liquidation value approach gives zero value to business franchise, which may, at times, prove overly conservative. There are companies with unique assets that may have material franchise value. Examples would include businesses with very high barriers to entry, such as German or Japanese primary insurance, continental European proportional reinsurance, the unique business of Munich Re's subsidiary, Hartford Steam Boiler (which was recently acquired from AIG), or Lloyd's syndicates (the ability of outside companies to set up Lloyd's subsidiaries is severely restricted by Lloyd's franchising process; most outsiders find it easier to pay a premium for an existing operation).

The approach outlined above is our standard way of looking at insurance investments. Most of the time, we have a handful of securities in the Fund that meet the criteria. In recent times, we have encountered an unprecedented number of companies whose stocks merit inclusion in the portfolio. The indiscriminate sell-off of equities in general and financial shares in particular drove down the valuation of insurance stocks even though, in some cases, they have strong financial positions and are benefiting from a benign and improving pricing environment.

We are, however, aware of the risks of "too much" exposure to insurance, and so we take measures to try to mitigate them. The most important issues currently on our mind are:

- **Exposure to catastrophe losses from hurricanes and earthquakes** – We limit our total investment in property catastrophe reinsurers to control concentration risk.
- **Further credit impairments on insurers' investment portfolios** – We select insurers with low weightings in investment classes where the probabilities of future problems (such as commercial real estate loans and lower quality corporate credits) are uncomfortably high.
- **Emergence of a new systemic loss crisis (similar to asbestos and environmental, or workers' compensation in the past)** – We limit our casualty exposure and watch potential problem classes



(directors and officers' insurance, professional liability) for signs of significant deterioration. We also try to diversify our insurance exposure geographically and by class of business.

- Potential losses from a flu pandemic** – As an example of a potential systemic loss crisis, we have examined the implications of a flu pandemic on our insurance portfolio companies. The impact on non-life insurance companies would be small and mostly limited to a subset of business interruption policies. The impact of excess mortality on life insurance companies would depend on their business mix; while they would have larger claims on their life insurance policies, they would benefit from smaller payouts on their pension business. Most of the life insurance companies in our portfolio have a balanced mix of life and pension business, and the net impact of excess mortality would be negligible. The one exception, and the company with the biggest exposure to a potential pandemic, is Munich Re, which has a large life and health reinsurance business in North America, in addition to a primary life and health insurance business in Germany. The impact of a flu pandemic on Munich Re would be comparable to that of a major natural catastrophe (such as a Gulf windstorm or California earthquake) and would be on the order of one year's earnings – material, but not threatening to the survival of the company. We continue to monitor the developments and disclosures to make sure that we react quickly if our assessment turns out to be too optimistic.

Again, while we are excited by the unprecedented breadth of opportunities currently available to invest in high-quality insurance companies at attractive prices, we place the utmost importance on safety, and we construct and monitor the Fund's portfolio accordingly.

GEOGRAPHICAL DISTRIBUTION OF INVESTMENTS

At the end of April 2009, the geographical distribution of equity securities held by the Fund was as follows:

	%
Japan	10.95
Canada	8.58
Taiwan	8.47
Singapore	7.87
Australia	6.53
Germany	6.11
Hong Kong	5.97
Poland	5.29
United Kingdom	5.19
United States	4.90
Belgium	3.69
South Korea	3.00
France	2.98
Finland	2.73
New Zealand	2.27
Chile	2.12
Bermuda	1.44
Sweden	1.33
Denmark	0.79
Thailand	0.03
Securities-total	<u>90.24</u>
Cash & Other	9.76
Total	<u>100.00%</u>

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 note in this and 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 next quarterly report for the period ended July 31, 2009.

Sincerely,

Amit Wadhwaney
 Portfolio Manager,
 Third Avenue International Value Fund

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