THIRD AVENUE FUNDS

Third Avenue Value Fund

Third Avenue Small-Cap Value Fund

Third Avenue Real Estate Value Fund

Third Avenue International Value Fund

Third Avenue Focused Credit Fund

SECOND QUARTER PORTFOLIO MANAGER COMMENTARY

April 30, 2012

M.J. Whitman LLC, Distributor. Date of first use of portfolio manager commentary: May 23, 2012.

Letter from the Chairman
(Unaudited)

Martin J. Whitman
Chairman of the Board

Dear Fellow Shareholders:

Throughout the years, I have frequently written about the great emphasis the Third Avenue Management ("TAM") investment team places on the quality and quantity of a company's resources when evaluating a potential investment. Put simply, most of the time, we seek to invest in the equity securities of companies with lots of cash and little, or no, debt. This quarter, I thought it might be of interest to my fellow shareholders to expand upon our thoughts on how cash can be most productively used by corporations.

Corporate Uses of Cash

In the broadest context, a corporation has only three uses of cash:

1) Expand assets
2) Reduce liabilities
3) Make distributions to shareholders
   a) Pay dividends
   b) Repurchase outstanding equity securities

For the vast, vast majority of corporations – and from the point of view of the corporation, itself – distributions to equity owners have to be a residual use of cash, distinctly subordinated to having the corporation expand assets and/or reduce liabilities. There are exceptions, however. Corporations which need relatively regular access to equity markets to raise new funds, will tend to pay out 70% to 80% of earnings as dividends in order to give these companies enhanced ability to sell new issues of common stocks, say every 18 months to two years, at prices reflecting a premium over book value. For most of the post-World War II period, this was the situation that prevailed for integrated electric utilities. Growth in demand ranged from 2% to 7%, per annum, year after year. It took capital expenditures of $5 to $7 to produce $1 of increased revenue. The integrated electrics were financed 60% to 70% with debt, mostly publicly-held first mortgages; 10% preferred stock; and 20% to 30% with common stock. Obviously given the physical growth, the large amount of capital expenditures and the need to maintain debt to stock ratios, companies in the electric utility industry had to raise capital periodically by selling new underwritten issues of common stock every 18 months to two years. What was true for the electric utilities was also valid for water companies, natural gas distributors and many expanding consumer finance companies. These were all, and to a considerable extent still are, high dividend payers. There are also a large group of companies with flow-through income tax characteristics, i.e., entities which are generally exempt from federal income taxes to the extent that income which would otherwise be taxable at the entity level is paid out to shareholders. These companies include registered investment companies ("RICs") and real estate investment trusts ("REITs"). Master limited partnerships ("MLPs") are flow-through entities, whose earnings are taxable, not to the business entity, but to the partners themselves.

However, for most companies it is highly impractical to plan to raise new equity capital by making periodic trips to capital markets. These markets are notoriously capricious. At times, access to equity markets can be had on a super attractive basis – see the 1999 dot com bubble. At other times, there can be no access at all to equity markets at any price – see the 2008-2009 meltdown. In any event, raising new equity by accessing capital markets tends to be quite expensive; gross spreads range between, say, 2½% and 7%. Rather, the vast majority of corporations will continue to get most of their new equity capital (and cash) through retained earnings, i.e., profits not distributed to shareholders.

Most of the companies whose common stocks are held in Third Avenue Management portfolios are in an especially good position to make distributions to common shareholders, especially to conduct long-term programs to repurchase outstanding common stock. These companies tend to combine super-strong financial positions with stock market prices that represent a meaningful discount from readily ascertainable, and economically meaningful, net asset value ("NAV"). Companies in the various TAM portfolios which exhibit such characteristics include the following:

Bank of New York Mellon
Brookfield Asset Management
Capital Southwest Corporation
Guoco Group
Hong Kong Property and Holding Companies (Cheung Kong Holdings; Hang Lung Group; Hang Lung Properties; Henderson Land; Hutchison Whampoa; Lai Sun Garment; Sun Hung Kai Properties; Wharf and Wheelock)
Investor A/B
Key Corp
Toyota Industries
White Mountains Insurance Group

In the above-mentioned list of companies, whose common stocks all are selling at meaningful discounts from NAV and which also enjoy super strong financial positions, long-term returns to TAM investors would likely be more than satisfactory, if the individual issuers could increase their NAV after adding back dividends by at least 10% per annum compounded.

A stock buy-in program, whereby a corporation repurchases some of its outstanding shares, could make it quite easy for several of the companies cited above to achieve the 10% growth bogey. Most of the managements and Boards of Directors are probably unaware of these benefits from a buy-in program, so it is unlikely to happen in the case of most of the companies on the list (White Mountains Insurance seems a notable exception). A simple example should suffice. Investor A/B reported that at March 31, 2012 its NAV was 167,657,000,000 Swedish Kroner (SEK) on 760,505,872 common shares outstanding, resulting in a NAV of 220 SEK per share. The market for Investor A/B common at the time of this writing is around 130 SEK, or a 40.9% discount from March 31, 2012 NAV. Total debt outstanding was 45,575,000,000 SEK leaving Investor A/B with a stock to debt ratio of 79:21. If Investor A/B, using additional borrowings of 21,000,000,000 SEK, were to tender for 150,000,000 Investor A/B common at 140, (including expenses) and the tender offer succeeded, there would be outstanding 610,505,872 Investor A/B common, with an NAV of 146,657,000,000 SEK or 240SEK per share an increase of 9.1% in NAV per share. The basic question ought to be – would such a buy-in be a more productive use of cash than expanding assets? Whether, or not, such an Investor A/B tender offer attracted 150 million common shares, it seems likely that the immediate after market price for Investor A/B Common would be north of 130.

Mathematically all of the companies on the list could achieve results consistent with those in the Investor A/B example above but there are other limiting factors. Even for Investor A/B, dividends have an enormous advantage over buy-backs because the dividend payments are tax deductible to Investor A/B under Swedish law at a 28% rate while there are no tax benefits to Investor A/B from most buy backs. Capital Southwest is small and a major repurchase program might cause it to go private; Brookfield Asset Management probably feels its best growth opportunities are in expanding assets; and various Hong Kong control shareholders have been fairly aggressive buyers of common stock for their own personal accounts recently so that for them having their companies buy shares poses something of a conflict of interest.

From a management point of view, share repurchases are a simpler use of funds than expanding the asset base most of the time simply because the research task is so much easier. You are less likely to make analytic mistakes when involved with your own enterprise, rather than an enterprise controlled and managed by someone else.

From a shareholders' point of view, especially the point of view of shareholders affected by daily stock price fluctuations, there are important advantages to these shareholders if cash distributions to shareholders are made in the form of dividends rather than stock buy backs. First, the markets populated by outside passive minority investors ("OPMIs") are volatile. However, insofar as a company pays regular dividends which are increased periodically market prices tend to be a lot less capricious than would otherwise be the case because the shares tend to get priced, at least in part, on a return (or yield) basis. Second, many OPMIs rely on regular dividend payments to meet living expenses.

The above shareholder point of view is not the TAM point of view. TAM is basically a long-term buy-and-hold investor. It seeks to invest in the common stocks of companies that have excellent prospects for increasing NAV by not less than 10%, per annum, compounded over the next three to seven years. And TAM would like to have its portfolio companies achieve this goal conservatively and in a very safe manner. To accomplish this, share buy-backs seem an ideal way to go, as long as common shares are available for purchase by strongly-financed companies and priced at meaningful discounts from NAV. The Investor A/B theoretical tender offer cited above demonstrates this.

"TAM is basically a long-term buy-and-hold investor. It seeks to invest in the common stocks of companies that have excellent prospects for increasing NAV by not less than 10%, per annum, compounded over the next three to seven years."

From a shareholder's point of view, buy-ins do have certain advantages over dividends:

Participating in a buy-in is voluntary for each individual shareholder. Receipt of a dividend, on the other hand, is mandatory to all shareholders.

Generally, a shareholder that participates in a buy-in will, subject to certain conditions, be treated for tax purposes as selling the shares back to the company and the shareholder will be taxed on any gain (proceeds minus cost basis) recognized from such sale. Depending upon the holding period, lower long-term capital gains rates may apply. On the other hand, the full amount of any payment treated as a taxable dividend may be subject to tax. If the qualified dividend rules do not apply, individual taxpayers may be taxed at rates which are higher than long-term capital gain rates. U.S. corporations eligible for the 70% corporate dividends received deductions could be taxed at an ultra-low rate.

Long-term market performance might be better with a buy-in, because weaker shareholders are more likely to sell out in the presence of the corporate buying interest.

Buy-ins can cause market liquidity to dry up, a very distinct disadvantage for many OPMIs.

From a company point of view, buy-ins tend to have huge advantages over dividends:

- Regular dividends become, in effect, a fixed charge, payable in cash for the corporation. In contrast, management controls completely the timing of buy-ins. It can conserve cash as needed, giving expanding assets and/or reducing liabilities the priorities they deserve at the times they deserve it. versus paying out a regular cash dividend to shareholders.
- Bought-in shares can offset the dilutive effects of issuing employee stock options.

Many, if not most, managements share the TAM view that the long-term object of the company is to grow economically meaningful NAV safely, conservatively and cheaply.

As an aside, it ought to be noted that there are four ways to acquire common stock for cash, whether for buy-in or other purposes:

- in the open market

- in private transactions
- via tender offers
- by use of the proxy machinery, for cash out mergers or reverse splits

Most purchases are open market purchases made after a Board of Directors authorizes the management of a company to repurchase a certain amount of shares.

Large enough purchases or use of the proxy machinery can result in a company going private or "going dark". This seems unlikely to happen to the various companies in the TAM portfolios, but one never knows. The effect can be disastrous if the going dark price does not reflect a substantial premium over market. I am not too worried on this score. The Hong Kong companies, in particular, seem safe from a take-under because the listing rules in the Hong Kong Stock Exchange make it almost impossible to use proxy machinery to go private. Also, the companies are so big that they are likely to stay public, even though control insiders have been regular and sometimes large, buyers of common stock.

For market participants focused on growth in NAV, there are a lot of differences between the last time the Dow Jones Industrial Average ("DJIA") was above 13,000 (December 2007) and the current 13,000 level. Book value for the DJIA is not exactly the same as NAV for the securities listed above; but, it remains a pretty good, albeit rough, surrogate for NAV. The book value for the DJIA at April 30, 2012 was 42.2% greater than the book value at December 31, 2007. More importantly, though, is the probability that the quality of the book value at April 30, 2012, as measured by the financial strength of the thirty companies making up the DJIA, was far superior in April 2012 compared to what it was in December 2007.

Do not rely on OPMI markets for economic logic. In OPMI markets, sponsorship and promotion seem to count much more than does economic logic. Two of the most successful private equity firms acquiring elements of control over the companies in which they invest, based on their long-term track records, are Capital Southwest and Investor A/B. As of this writing, Capital Southwest is trading at about a 43% discount from estimated NAV and Investor A/B is trading at about a 41% discount from estimated NAV. How do these extremely well financed companies compare with private equity limited partnerships and hedge funds, few of which have been as successful as these two in growing long-term NAV?

1) The private equity limited partnerships and hedge funds are not priced at any discount from NAV.
2) The private equity limited partnerships restrict investors from cashing-in their investments.

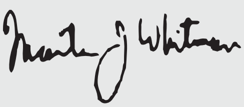
   Capital Southwest and Investor A/B are marketable as long as securities markets are open (i.e., almost all the time).
3) The overall all-in expense ratios for both Capital Southwest and Investor A/B are probably less than 1%. The typical private equity partnership or hedge fund probably charges a management fee of 2%, plus a 20% profit participation after meeting a bogey of, say, 6%, to the limited partners. Most fees earned by a private equity limited partnership or hedge fund (banking fees, home office charges, etc.), probably belong mostly to the general partners, not the limited partners.
4) Most private equity partnerships and hedge funds are probably more leveraged, i.e., less well financed, than are Capital Southwest and Investor A/B.
5) Investor protections are manifestly greater for market participants holding common stocks than they are for market participants who are limited partners. Especially strong investor protections exist for Capital Southwest, which is registered as an investment company under the Investment Company Act of 1940, as amended.

One final observation. Academics are mostly believers in Modern Capital Theory ("MCT"). In the efficient market in which they believe, situations like the companies in our list could not exist. For them, efficient pricing would get rid of the large discounts at which each security sells. This

MCT view is diametrically opposed to the TAM view. In the TAM view, securities markets populated by OPMIs tend very much to be price inefficient, unless there exist catalysts. Principal catalysts include prospects for changes of control, going private, mergers and acquisitions, spin-offs and major asset or liability re-structurings. If there is anything wrong with the TAM list of companies cited, it is a lack of catalysts. Yet, over time, the TAM portfolios have performed satisfactorily even in the relative absence of such catalysts. And, perhaps most important of all, the probabilities seem to be that none of the companies will suffer permanent impairments no matter how unfavorable the various top-down economic outlooks might be.

I will write you again when the shareholder letters for the period to end July 31, 2012 are published.

Sincerely yours,



Martin J. Whitman
Chairman of the Board

Third Avenue Value Fund
(Unaudited)

IAN LAPEY
PORTFOLIO MANAGER OF
THIRD AVENUE VALUE FUND

Dear Fellow Shareholders:

As discussed in last quarter's letter, I assumed the role as sole manager of Third Avenue Value Fund (the "Fund") on March 1, 2012. In this new role, I continue to be supported by the entire investment team at Third Avenue, including Martin Whitman, who remains Chairman. The entire 29-person investment team meets every Tuesday morning to discuss both potential new investments and existing positions. Marty continues to be an active participant in these meetings, particularly in ensuring that any common stock investment is suitable based on a critical assessment of the financial strength, management competence and business prospects of the underlying issuer. Additionally our value equity team meets weekly to review investments for the Fund and the Third Avenue Small-Cap Value Fund ("TASCX"). As has typically been the case, several members of the investment team contributed as analysts on the securities that were purchased during the quarter, including the newest member of the team, senior research analyst Vic Cunningham. Previously, Vic had been the Director of Research at Olstein Funds and had run his own private fund.

Portfolio activity during the past two months has been focused on purchasing shares of six common stocks, including three new positions, each of which is discussed below, and reducing the Fund's Hong Kong exposure (39% as of April 30, 2012, down from 50% on March 1, 2012) to make the portfolio more diversified (a strategy I noted in last quarter's shareholder letter). Additionally, a few other large holdings (Brookfield Common, Forest City Common, Posco Common and Investor A/B Common) were trimmed to maintain position sizes. Finally, we exited several small non-core positions, including the remaining $9.3 million (face value) in MBIA Surplus Notes, which were sold at a small profit when factoring in interest received. The Fund's cash position totaled nearly 8% at quarter end, an increase from 2% on March 1, 2012.

As of April 30, 2012, the Fund's most significant geographic concentration was in East Asia, which accounted for about 52% of the portfolio. These investments, which primarily consist of several Hong Kong-based real estate and holding companies – whose recent results are discussed below, along with the common stocks of Posco, a Korean steel producer and Japan-based Toyota Industries – represent the best combinations of large discounts from readily ascertainable net asset value ("NAV"), strong financial positions and attractive NAV growth potential. The issuer of each common stock purchased during the quarter was based in the U.S.; the Fund's exposure in North America is 35%. We have an attractive pipeline of common stocks issued by U.S. companies, including both new names and existing holdings, which would be purchased if pricing improved. The Fund's exposure to Europe remains limited, at only

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, 2012: Henderson Land Development Co., Ltd., 12.33%; Posco (ADR), 8.54%; Cheung Kong Holdings, 7.90%; Wheelock & Co., Ltd., 6.18%; Investor A/B, 4.95%; Brookfield Asset Management, Inc., 4.85%; Toyota Industries Corp., 4.70%; Hang Lung Group, Ltd., 4.68%; Bank of New York Mellon Corp., 4.62%; and Covanta Holding Corp., 4.61%.

5%, consisting almost entirely of the common stock of Sweden-based holding company Investor A/B. Given the lingering sovereign debt issues in Europe, we have been reviewing several depressed common stocks in this region. This could be an area of increased future activity if pricing improves.

QUARTERLY ACTIVITY

Number of Shares	New Positions
39,898 shares	Alleghany Corp. Common Stock (“Alleghany Common”)
490,000 shares	Comerica, Inc. Common Stock (“Comerica Common)
21,628 shares	White Mountains Insurance Group Ltd. Common Stock (“White Mountains Common”)
	Positions Increased
1,371,581 shares	Applied Materials, Inc. Common Stock (“Applied Materials Common”)
150,000 shares	Devon Energy Corp. Common Stock (“Devon Common”)
850,000 shares	KeyCorp Common Stock (“Key Common”)
	Positions Decreased
612,900 shares	Brookfield Asset Management, Inc. Common Stock (“Brookfield Common”)
8,654 shares	Carver Bancorp, Inc. Common Stock (“Carver Common”)
8,297,000 shares	Cheung Kong Holdings, Ltd. Common Stock (“Cheung Kong Common”)
250,000 shares	Forest City Enterprises, Inc. CL A Common Stock (“Forest City Common’)
1,286,000 shares	Hang Lung Group, Ltd. Common Stock (“Hang Lung Group Common”)
10,415,000 shares	Hang Lung Properties, Ltd. Common Stock (“Hang Lung Properties Common”)
16,425,000 shares	Henderson Land Development Co., Ltd. Common Stock (“Henderson Common”)

Number of Shares or Principal Amount	Positions Decreased (continued)
6,677,000 shares	Hutchison Whampoa, Ltd. Common Stock (“Hutchison Common”)
168,374 shares	Investor AB Common Stock (“Investor Common”)
70,063 shares	Posco Common Stock (“Posco Common”)
31,300 shares	SFSB, Inc. Common Stock (“SFSB Common”)
397,400 shares	Toyota Industries Corp. Common Stock (“Toyota Industries Common”)
6,425,000 shares	Wharf Holdings, Ltd. Common Stock (“Wharf Common”)
1,000,000 shares	Wheelock & Co., Ltd. Common Stock (“Wheelock Common”)
	Positions Eliminated
387,525 shares	Brookfield Infrastructure Partners, L.P. Common Stock (“Brookfield Infrastructure Common”)
46,366 shares	Colonial Financial Services, Inc. Common Stock (“Colonial Common”)
224,796 shares	Fedfirst Financial Corp. Common Stock (“Fedfirst Common”)
199,102 shares	Gouverneur Bancorp, Inc. Common Stock (“Gouverneur Common”)
241,968 shares	Home Federal Bancorp Inc., Common Stock (“Home Federal Common”)
$9,330,000	MBIA Insurance Corp. 14% Surplus Notes (“MBIA Surplus Notes”)

PORTFOLIO ADDITIONS

Since March 1, 2012, we have added to three existing holdings and initiated three new positions. These investments fall into four buckets: oil and gas exploration and production (“E&P”), property and casualty (“P&C”) insurance, high tech and regional banks. The following is a review of the portfolio activity in each area.

OIL AND GAS E&P

As discussed in last quarter's letter, a new position was initiated in Devon Common. We added modestly to the position this quarter. Devon Energy Corp. is an Oklahoma-based oil and gas exploration and production company. In April, I attended the presentation of Devon's CEO, John Rickels, at the IPAA Oil and Gas Investor Symposium in New York City. The highlight was the company's discussion of its long-term growth outlook: production is projected to increase from 240 million barrels of oil equivalent ("BOE") in 2011, to 340 million BOE by 2016, representing a 7% annual growth rate. This growth is projected to be driven by high margin oil and natural gas liquids ("NGLs") annual growth of 16% to 18%, while natural gas production declines slightly. The company should retain a very strong financial position throughout this period, as most of the growth is expected to be funded by operating cash flow (the company expects to use only $1.5 billion of its $7 billion in cash over this period).

> **"Depressed valuations usually attract our interest at Third Avenue, and we are willing to live through weak near-term results if the issuer has a strong financial position and attractive long-term growth potential."**

In early May, Devon reported first quarter results that showed significant progress. The company generated 10% year-over-year production growth, driven by increases in oil and NGLs production of 26% and 21%, respectively. The company's Jackfish oil sands projects in Canada generated a 55% increase in production, while oil production in the Permian basin in Texas, which has been revitalized by the application of horizontal drilling technology, increased 32%. The primary negative factor was low natural gas prices, which declined 35% to $2.34 per thousand cubic feet equivalent ("mcfe"). Fortunately, Devon's realized price was $3.02 owing to gains from its hedges, and the company has about 40% of its natural gas production hedged at $4.42 per mcfe for the balance of the year. Devon Common's valuation is attractive at about five times earnings before interest, taxes, depreciation and amortization ("EBITDA"), a 10% discount to estimated net asset value and $10 per BOE of proved reserves. By comparison, in 2009 and 2010, the company exited its Gulf of Mexico and international operations at a price of about $45 per BOE of proved reserves. Devon Common accounted for 1.2% of the Fund's net assets at quarter end, and the position has been increased this quarter as the stock has declined.

PROPERTY & CASUALTY INSURANCE ("P&C")

As Curtis Jensen discussed in the TASCX shareholder letter last quarter, 2011 was a difficult year for P&C insurers, owing to the combination of record low interest rates and one of the worst years of insured losses in history. As a result, P&C public market valuations are depressed, as many common stocks trade below tangible book value. Depressed valuations usually attract our interest at Third Avenue, and we are willing to live through weak near-term results if the issuer has a strong financial position and attractive long-term growth potential.

In evaluating potential P&C common stocks, we look for the following characteristics:

- Strong financial positions at both the operating companies and holding company, including AM Best ratings of at least A-.
- Competent underwriting track records through cycles, with combined ratios of less than 100%.
- The ability to invest at least a portion of the investment portfolio in equities (a by-product of the strong financial position).
- A long-term track record of at least a high single digit annual percentage growth in net asset value per share.
- A history of buying and selling assets prudently. We are not interested in investing in market-share driven

insurance companies that write business regardless of the return profile.

- A common stock price trading below tangible book value per share, ascribing no value to the significant float inherent in the business.

We initiated a position in Alleghany Common, which was purchased in TASCX and discussed in last quarter's TASCX shareholder letter. Curtis Jensen and I attended a lunch with a small group of investors and Alleghany's CEO, Weston Hicks, in April. Weston seems to be our type of CEO: he is non-promotional and focused on generating shareholder value by growing book value per share. The company has no dedicated investor relations person and does not do quarterly earnings calls, but instead provides comprehensive financial disclosures aimed at enabling long-term investors, as opposed to short-term speculators, to make informed investment decisions. Weston's presentation to investors consisted of a one page Excel spreadsheet showing the company's performance since 2002, when he joined the company. Over this period, the company's average combined ratio was 90% (i.e., a 10% underwriting profit margin), and book value per share increased at a 9% compounded annual growth rate ("CAGR"). This growth was particularly impressive given the difficult underwriting environment over the period with competitive pricing and an elevated level of insured losses.

Future book value growth should be partially driven by the company's 2012 purchase of Transatlantic, a leading global reinsurer. This transaction appears to have been well timed, as it was completed at a significant discount to tangible book value and reinsurance rates are improving in 2012. Alleghany also recently announced a small acquisition of Bourn & Koch, Inc., an Illinois-based manufacturer of precision machine tools. This company will join several other non-insurance investments in Alleghany's portfolio and is representative of management's opportunistic approach and willingness to look outside the insurance industry to enhance shareholder value. Shares of Alleghany Common were purchased at a discount to tangible book value.

We also initiated a position in the common stock of White Mountains Insurance Group Ltd., a Bermuda-based holding company whose principal businesses are conducted through property and casualty insurance and reinsurance subsidiaries. White Mountains Common was recommended for investment last year by John Mauro, a research analyst on Third Avenue's international team, when the company announced the sale of its Esurance subsidiary at a terrific price (about 2.5 times tangible book value) to the Allstate Corporation. White Mountains Common was subsequently purchased in the Third Avenue International Value Fund and discussed in that fund's July 31, 2011 shareholder letter. Impressively, White Mountains' tangible book value has increased at about 15% per year since 1985, with much of the growth driven by timely resource conversion activity (e.g., buying and selling of businesses), such as the recent Esurance sale.

In recent years, White Mountains' management has also been engaged in precisely the type of resource conversion activity discussed in Martin Whitman's Chairman's letter this quarter, e.g., repurchasing White Mountains Common. Since 2007, White Mountains has repurchased 37% of its outstanding common shares in a combination of open market repurchases, privately negotiated transactions and tender offers. Most recently, the company repurchased about 11% of its outstanding shares in a tender offer at $500 per share in March 2012 (versus a price of $523 per share on April 30, 2012). White Mountains Common was purchased during the quarter in the Fund at a modest discount to the company's March 31, 2012 book value per share of $560.

HIGH TECH

In March, I attended the Applied Materials investor meeting in New York along with my colleague Yang Lie, who has followed Applied Materials and other technology stocks since joining the firm in 1996. Applied Materials' Chairman and CEO Mike Splinter, along with several other members of the senior management team, presented a compelling long-term investment case for the company, which is the leading global provider of semiconductor capital equipment, driven by increasing consumer demand for mobility. While it is difficult to predict who will produce the next top-selling consumer electronics gadget (although the odds appear to favor Apple at the moment), it seems to be a safe bet that the demand for equipment and services provided by Applied Materials should increase, given its market dominance in many areas of semiconductor equipment, as semiconductor chips become more ubiquitous and more complex, necessitating a greater number and more advanced tools.

This favorable longer-term outlook seems to have been lost on many, as the company's modest reduction in 2012 earnings guidance triggered a 3% decline in the stock price that day and a subsequent 4% decline through quarter end. Specifically, owing primarily to weak demand for solar power capital equipment, the company projected fiscal 2012 earnings of $0.85 to $0.95 per share, compared to the previous Wall Street consensus forecast of $0.96 per share. As a result, we added to our position in Applied Common at very attractive multiples of about 9 and 13 times 2011 and expected 2012 earnings, respectively. Importantly, we believe that earnings are likely to exceed recent peak 2011 earnings of $1.30 per share in the next few years, driven by the favorable dynamics noted above, as well as an increase in addressable market from the recent acquisition of Varian Semiconductor. Although Applied Materials paid a rich price for Varian ($4.2 billion; 18 times earnings), the transaction was financed with excess cash and very low cost debt and should be accretive next year. Varian is the market leader in the ion implant market, a critical step in semiconductor chip manufacturing, which enables the manufacturing of high performance chips, e.g., for applications requiring faster speeds and longer battery lives. Even after the Varian acquisition, Applied Materials has a very strong financial position, with about $3 billion of cash and $2 billion of debt consisting of senior unsecured notes due from 2016 to 2041 at rates ranging from 2.7% to 7.1%. Applied Common accounted for 1.3% of the Fund's net assets at quarter end, and we have been increasing our position on further share price weakness this quarter.

REGIONAL BANKS

During the quarter, we added to our existing position in Key Common and initiated a new position in Comerica Common. At quarter end, the two positions accounted for 3.4% of the Fund's net assets. Comerica Common was identified by Vic Cunningham. Comerica Incorporated is a financial holding company based in Dallas with subsidiaries engaged in retail and business banking and wealth management. The management team, led by Chairman and CEO Ralph Babb, has an impressive long-term track record, having avoided many of the consumer related problem areas in 2007 and 2008. As a result, the company's tangible book value is roughly flat compared to five years ago, a considerable accomplishment in light of the financial crises. The current earnings outlook is subdued owing to depressed net interest margins (3.2%, versus 3.6% to 4.0% historically) and tepid loan growth (2% in the first quarter). Nevertheless, the company appears poised to generate improved returns over the next several years, owing to its low cost deposit base, strong business lending franchise in its core markets (Texas, Michigan, California and Florida) and strong capital position (10.3% Tier 1 Capital ratio). The company recently passed the Fed's Comprehensive Capital Analysis and Review ("CCAR") stress test and was approved to repurchase $375 million in stock (about 6% of the company's outstanding shares) over the next year. The Fund's initial position in Comerica Common was acquired at about 13 times earnings and a slight discount to tangible book value.

Since our initial investment in Key Common in late 2009, the company's business performance has been impressive:

- Non-performing loans have declined for ten consecutive quarters and totaled 1.35% of period-end loans, down from 3.68%.
- The company has been profitable for eight quarters in a row.
- The company raised common equity at $8.85 per share, a premium to tangible book value at the time

and a 15% premium to the current price. The proceeds were used to completely repay TARP.

- The Tier 1 common equity ratio increased to 11.55%, from 7.64%.
- Tangible book value per share increased by 12%, to $9.28 per share.
- In March 2012, Key passed the Fed's CCAR stress test and received authorization to repurchase $344 million of stock (nearly 5% of total outstanding shares at current prices). As discussed in Martin Whitman's Chairman's Letter this quarter, we strongly support share repurchases by a company like Key, whose common stock sells at a substantial discount to book value.

While Key Common is up about 30% since our initial purchase, it is, arguably, a better investment today; although the discount has narrowed, the company's financial position and business prospects appear to be even better.

We recently had a meeting at our office with Beth Mooney, Key's Chairman and CEO, and several members of her executive team. One of the topics of conversation was the company's highly discounted valuation compared to its banking peers (Key Common sells at about a 15% discount to tangible book value; whereas most of its peers sell at slight premiums). While there is no clear explanation for the disparity, one possibility is the company's exit loan portfolio, consisting of marine and certain other consumer loans, and its discontinued student loan business. Since these loan books are in run-off, Key is more challenged in growing its overall loan portfolio than most of its peers. Nevertheless, management's decision to exit higher-risk businesses seems to be prudent, as it should result in better performance during the next downturn.

HONG KONG UPDATE – STRONG FINANCIAL RESULTS

Our Hong Kong real estate and holding companies were the largest contributors to performance this year to date, through April. Business fundamentals remain strong and reported NAV growth in 2011 was impressive, yet the stocks trade at significant discounts to NAV. The following are highlights from some of the companies' recent results:

- Henderson Land reported that underlying profit increased 10% and net asset value per share increased 7%, to HK$78.23 per share (8% including dividends). The growth was driven by robust commercial real estate results in Hong Kong and China, as leasing income increased 25%. Henderson maintained a very strong financial position with a 16.6% net debt to capital ratio, interest coverage of six times and an average borrowing rate of 3.1%.
- Cheung Kong reported a 72% increase in 2011 earnings per share and a 16% increase in NAV per share to HK$132.20. The company's results benefitted from gains on timely resource conversions in early 2011, consisting of sales of stakes in ports and commercial real estate assets in separate IPOs. The large gains confirm our belief that many of the company's assets are worth considerably more than stated book value. Cheung Kong's underlying profit increased 15%, driven by a 26% increase in contribution from property sales and a 13% increase in property leasing income. Cheung Kong maintained a very strong financial position with HK$20 billion in cash and a net debt to capital ratio of only 7.6%.
- Wheelock & Co. reported that underlying profit increased 13% and NAV increased 22% to HK$60.32 per share. Leasing income increased 16%, as 25% retail sales growth in Hong Kong drove strong demand for shopping center space. Despite the headwinds from softening residential markets in Hong Kong and China, Wheelock generated very impressive property development results, as revenue and operating profit increased 109% and 194%, respectively. At year end, Wheelock's financial position was strong with a net debt to capital ratio of 11%, excluding Wharf's debt, which is non-recourse to Wheelock.

The Fund experienced a modest rebound in performance thus far in 2012; however, we believe the portfolio remains very attractively valued. As of April 30, 2012, the Fund was priced at only 0.77 times book value at quarter end. By comparison, the S&P 500 and MSCI World indices, the most widely used benchmarks for the Fund, traded at 2.3 and 1.7 times book value, respectively. Importantly, despite these more depressed valuations, we believe that our companies have stronger financial positions and better NAV growth potential than the average companies in the indices. Since quarter end, the price of the Fund has declined along with the overall markets, as sovereign debt issues in Europe, a slowdown in China and isolated incidents involving high profile U.S. companies, including Chesapeake and JP Morgan, appear to have spooked investors. The Fund has taken advantage of recent market turbulence by adding to some of the common stocks discussed above and is well positioned to take advantage of additional opportunities.

I shall write to you again when we publish our Third Quarter Report dated July 31, 2012. Thank you for your continued interest in the Fund.

Ian Lapey
Portfolio Manager
Third Avenue Value Fund

Third Avenue Small-Cap Value Fund
(Unaudited)

CURTIS R. JENSEN
CHIEF INVESTMENT OFFICER &
PORTFOLIO MANAGER OF
THIRD AVENUE SMALL-CAP VALUE FUND

Dear Fellow Shareholders:

During the quarter, Third Avenue Small-Cap Value (the "Fund") initiated three new positions, added to 16 of its 63 existing positions, eliminated one position and reduced its holdings in 21 companies. At April 30, 2012, Small-Cap Value held positions in 61 common stocks, the top 10 positions of which accounted for approximately 25% of the Fund's net assets.

Number of Shares	New Positions Acquired
587,680 shares	Cloud Peak Energy, Inc. Common Stock ("Cloud Peak Common")
114,365 shares	Jos. A. Bank Clothiers, Inc. Common Stock ("Joseph Bank Common")
45,464 shares	Rofin-Sinar Technologies, Inc. Common Stock ("Rofin-Sinar Common")
	Increases in Existing Positions
18,222 shares	Alleghany Corp. Common Stock ("Alleghany Common")
10,000 shares	Canfor Corp. Common Stock ("Canfor Common")

Number of Shares	Increases in Existing Positions (continued)
46,175 shares	Compass Minerals International, Inc. Common Stock ("Compass Common")
25,000 shares	Emcor Group Common Stock ("Emcor Common")
6,347 shares	Excel Trust, Inc. Common Stock ("Excel Common")
254 shares	Haemonetics Corp. Common Stock ("Haemonetics Common")
45,462 shares	ICF International, Inc. Common Stock ("ICF Common")
47,487 shares	J&J Snack Foods Corp. Common Stock ("J&J Common")
20,945 shares	Lexmark International, Inc. Common Stock ("Lexmark Common")
35,150 shares	Mantech International Corp. Common Stock ("Mantech Common")
228,014 shares	Pioneer Drilling, Inc. Common Stock ("Pioneer Common")
333,150 shares	Segro PLC Common Stock ("Segro Common")
10,000 shares	SemGroup Corp. Common Stock ("SemGroup Common")
62,811 shares	Sensient Technologies Corp. Common Stock ("Sensient Common")
36,000 shares	Teleflex, Inc. Common Stock ("Teleflex Common")
9,700 shares	Unifirst Corp. Common Stock ("Unifirst 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, 2012: Madison Square Garden, Inc., 3.11%; Ingram Micro, Inc., 3.00%; Vail Resorts, Inc., 2.85%; Seacor Holdings, Inc., 2.67%; Teleflex, Inc., 2.40%; Liberty Media Corp, 2.21%; Semgroup Corp., 2.19%; Mantech International Corp., 2.18%; Ackermans and Van Haaren NV, 2.13%; and Lexmark International, Inc., 1.99%.

Third Avenue Small-Cap Value Fund (continued)
(Unaudited)

Number of Shares	Positions Reduced
15,000 shares	Ackermans & van Haaren N.V. Common Stock (“AvH Common”)
75,161 shares	Aeropostale, Inc. Common Stock (“Aeropostale Common”)
231,425 shares	Alexander & Baldwin, Inc. Common Stock (“Alex Common”)
24,200 shares	Alico, Inc. Common Stock (“Alico Common”)
40,000 shares	American Eagle Outfitters, Inc. Common Stock (“American Eagle Common”)
27,500 shares	Cimarex Energy Co. Common Stock (“Cimarex Common”)
25,417 shares	Cross Country Healthcare, Inc. Common Stock (“Cross Country Common”)
7,447 shares	Encore Wire Corp. Common Stock (“Encore Common”)
106,239 shares	HCC Insurance Holdings, Inc. Common Stock (“HCC Common”)
10,000 shares	Kaiser Aluminum Corp. Common Stock (“Kaiser Common”)
205,000 shares	Lanxess AG Common Stock (“Lanxess Common”)
17,265 shares	Liberty Media Corp. Common Stock (“Liberty Common”)
500 shares	Minerals Technologies, Inc. Common Stock (“Minerals Technologies Common”)
28,510 shares	Park Electrochemical Corp. Common Stock (“Park Common”)
100,000 shares	P.H. Glatfelter Co. Common Stock (“Glatfelter Common”)
1,796,000 shares	PYI Corporation. Ltd. Common Stock (“PYI Common”)

Number of Shares	Positions Reduced (continued)
10,768 shares	Stepan Co. Common Stock (“Stepan Common”)
1,835 shares	Superior Industries International, Inc. Common Stock (“Superior Common”)
1,157,300 shares	Viterra, Inc. Common Stock (“Viterra Common”)
262,843 shares	Wacker Neuson SE Common Stock (“Wacker Common”)
128,188 shares	Westlake Chemical Corp. Common Stock (“Westlake Common”)
	Position Eliminated
21,530,352 shares	Catalyst Paper Corp. Common Stock (“Catalyst Common”)

QUARTERLY ACTIVITY

The Fund’s newest additions this quarter span a diverse set of businesses, including a coal company (Cloud Peak), a retailer (Jos. A. Banks) and an industrial capital equipment company (Rofin-Sinar). Two of these stocks attained relatively meaningful size and are discussed in more detail below. When Fund Management made its first energy-related investments in 2004[1], we noted the following as one of our working assumptions about energy investing:

> *Conventional wisdom in the industry is usually proven wrong and surprises are more the norm. Few observers, for example, predicted the fallout on oil prices in the late 1980s, as automobile fuel efficiency began to soar. Similar “left field” developments may await us in future periods.*

We would submit that the steep decline in natural gas prices during the past twelve months[2] ought to count as one of those “surprises” served up by the energy markets and have considered how we might position the Fund to gain from another such surprise: the potential reversal of those declines. Our search for ideas included the more apparent possibilities, such as shares of oil and gas

[1] See Third Avenue Small-Cap Value Fund shareholder letter, dated April 30, 2004.
[2] Spot prices for Henry Hub natural gas have declined from approximately $4.20/MMBtu in the first quarter of 2011, to $2.30 today.

producers whose hydraulic fracturing (commonly known as "fracking") technology has created a glut of natural gas, and extended to somewhat less obvious places, such as shares of electric utilities that use natural gas as part of their fuel mix. Our search concluded, perhaps improbably, on yet a different subsector with the shares of Cloud Peak Energy, a coal producer. Coal prices – specifically thermal coal, the kind used by utilities to generate electricity – have dropped along with demand in response to record low gas prices that have increasingly pushed utilities to switch from coal to gas as a fuel source. Among utilities, natural gas has been taking "market share" from coal for years[3], a shift that jumped markedly following one of the mildest winters on record. In what may be an extreme example, Southern Company, an Atlanta-based utility, will reportedly get 35% of its fuel from coal this year, versus 70% five years ago[4]. Adding to the gloom for thermal coal are onerous environmental regulations that, if enacted as proposed, will likely permanently reduce coal's contribution to America's energy picture.

In a beleaguered industry, Cloud Peak seems to stand apart from its peers on several fronts. Its three non-unionized surface mining operations, which produce low sulfur coal, are located in the Powder River Basin of Wyoming and Montana and boast one of the lowest cost positions in the industry. Additionally, Cloud Peak's Spring Creek mine enjoys Canadian port access that connects it to growing Asian markets[5], where coal consumption is expected to grow rapidly. Admirably, Cloud Peak's management team has maintained a strong financial position and has not followed its competitors by expanding through large acquisitions, moves that have saddled a number of the largest players with weakened balance sheets (implicitly strengthening Cloud Peak's hand). Its attractive valuation, equating to less than four times estimated 2012 EBITDA or $0.90 per ton of reserves, is well below private market values we estimate to be in excess of $1.50 to $2.00 per ton. Customer contracts equate to almost all of 2012 production and the majority of that for 2013, ensuring some cash flow stability and affording a comfortable degree of downside protection. While the contracts may become negotiable, they do provide a reasonable enough runway and timeframe for energy markets to balance. Additionally, though the company carries a net debt position, it faces no debt maturities until 2017.

A few more pieces to the puzzle, not all of which are necessary for a successful outcome, would make this an even more enticing investment. These include:

1) Cloud Peak management avoids a large, value-destroying acquisition and watches closely its controllable costs, including labor, fuel, tires, and maintenance;

2) Natural gas producers recognize that $2 gas is unsustainable, as it jeopardizes their business economics and, therefore, make a concerted effort to cut back capital spending and production to reduce the supply of gas;

3) Demand for natural gas improves, as weather normalizes and as industrial use takes root from expansion among chemical and fertilizer producers and LNG export facilities, pushing gas prices higher and reducing the attraction of switching from coal;

4) Utility customers act rationally and continue to maintain a diversified basket of generation assets that includes coal, gas, nuclear, hydro and alternatives (i.e., coal does not get completely abandoned in the next five to 10 years);

5) Low sulfur PRB coal gains favor with utilities at the expense of higher cost, Appalachian coal where the competitors, as noted, may be financially and strategically constrained;

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[3] According to the EIA, coal and gas accounted for 49.8% and 17.9% of U.S. electricity generation in 2004, respectively. By 2013 it forecasts that coal will account for 41.2%, versus 26.2% for gas.
[4] *Atlanta Journal Constitution*, April 26, 2012.
[5] According to research from consulting firm Wood Mackenzie, coal will supplant oil as the world's leading fuel source by 2015.

6) Foreign markets remain open to U.S. producers and port capacity expands to create even more room for U.S. production.

While the U.S. thermal coal business may not embody a wonderful growth story, we do not believe it will share the same fate as newspapers, paging devices and VHS tapes. Given its abundance and low cost, we certainly believe coal has a future as an energy source over our three-to-five-year investment horizon, particularly if natural gas prices rise and export opportunities increase. Our experience suggests owning mispriced assets in an industry that is prone to surprises can be rewarding. At current levels, the shares trade in what we think of as a desirable ratio of upside to downside – around 3:1[7].

"Our experience suggests owning mispriced assets in an industry that is prone to surprises can be rewarding. At current levels, the shares trade in what we think of as a desirable ratio of upside to downside – around 3:1."

The position initiated in Jos. A. Banks Common adds to a small basket of well-capitalized retailers that might credibly draw interest from private equity sources, but whose managements we expect to create value in their own right. Jos. A. Banks has been selling suits, shirts and other men's business wear for 107 years; but, it was not until the past decade that the company developed more of a nationwide presence, expanding well beyond its roots in the Mid-Atlantic U.S. While the company's promotional approach may be at odds with building a brand, management has compounded revenues at double digit growth rates over the past 10 years, while consistently delivering same store sales growth[6] and margin expansion, even through the recent economic downturn.

Cash and equivalents comprise 20% to 25% of the company's current market cap, and the balance sheet is debt free. While the contractual obligation associated with operating leases are "debt like," we view it as eminently manageable and find additional comfort in the company's track record of profitability and excess free cash flow. The company does carry significant inventory, but unlike many apparel retailers, "fashion risk" seems relatively limited. Unlike the Fund's other apparel retailer holdings, the company's focus is on classic staples – including suits, dress shirts, and pants – that will be saleable next season or next year and likely look much the same as those sold five years from now.

Management prefers promoting their wares to both Main Street and Wall Street, rather than promoting their shares. Given the company's track record, we would say this has been time and energy well spent. Management believes they have room to expand their store base, and historically they have found numerous ways to profitably extend their product lines and otherwise grow sales from their existing store footprint. The next three to five years may not maintain the same trajectory as the past five; however, odds seem good that management can continue to compound value at attractive rates.

The Fund started its position at approximately 10 times earnings (adjusted for the company's cash holdings), a seemingly undemanding valuation for a business with prospects of continued growth over the near to mid-term. Shares also trade at a meaningful discount to what we believe a knowledgeable financial or strategic buyer might pay for control of the business.

During the quarter, Fund Management eliminated the remainder of its position in Catalyst Paper Common. Amit Wadhwaney discussed this investment in great detail in his First Quarter 2012 letter to Third Avenue International Value Fund Shareholders.

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[6] Same store sales growth compares sales of stores that have been open for a year or more, providing a measure of growth less influenced by simply adding more store locations. Same store sales growth reflects management's ability to improve the revenue productivity of its existing store base.

[7] TAM Estimate

RETURNS AND ATTRIBUTION

While we seek to create value for our shareholders over the long term and try to think about performance in those terms, we are invariably asked about performance during much shorter time frames. As such, we endeavor to comment on the matter at least a couple of times a year in our letters. Breaking with convention (what else would we do?), we'll discuss performance for the *first third* of the year, as April coincides with the end of the Fund's fiscal quarter and seems more relevant than a discussion about results for the more conventionally reported March quarter end. Through the four months ended April 30, 2012, the Fund returned 9.3%. On a raw basis, i.e., without reference to the investment risk undertaken, the Fund's return represents a modest shortfall relative to the Russell 2000 Value Index, which returned 10.0% during the same period. The vast majority of the Fund's holdings showed a positive return. However, the Fund's above average cash holdings during the period (approximating 20%) detracted from the Fund's results. In addition, the Fund tends not to own the kind of companies that performed well during the period. According to Merrill Lynch Research[8], for example, the better performing returns in the Russell 2000 Value Index came from the smallest companies, those with no earnings and those whose stocks were priced under $5.00 per share.

Listed in the table below are the names and relevant percentages of the top four contributors and detractors and their impact on the Fund's performance thus far this year (January-April 30, 2012). The Fund's exposure to industrial companies, such as Lanxess and Westlake, both chemical companies, provided a nice tailwind for the Fund's results. Lanxess shares have more than made up for their negative contribution during 2011, reflecting terrific progress in the business on a number of levels. Viterra became the target of a negotiated acquisition proposal whose valuation translated to a 50%+ premium on the share price prior to the public announcement of the deal. Madison Square Garden, whose shares appreciated more than 25% during the period, continues to report positive business developments that reinforce our thesis on the holding.

Contributors	Detractors
Lanxess AG (+1.44%)	Pioneer Drilling (-0.20%)
Viterra (+1.03%)	Lexmark International (-0.18%)
Westlake Chemical (+0.70%)	Cross Country Healthcare (-0.15%)
Madison Square Garden Co. (+0.65%)	Cloud Peak Energy (-0.14%)

Pioneer Drilling, a land-based oil and gas drilling and services contractor, saw its shares decline nearly 20% during the period, as natural gas prices fell to multi-decade lows and as its producer-customer base began to announce cutbacks in natural gas drilling activity. Most of Pioneer's assets work in well-established oil and gas basins, such as the Bakken, Eagle Ford and Permian, are contracted on a multi-year basis and have largely been dedicated toward finding oil and liquids, not dry gas. Contract terms and fleet utilization generally appear firm or are improving. A possible explanation for the weak share performance may tie to the company's relatively aggressive, debt-financed expansion but, with the shares currently trading below book value, we have been adding to the Fund's position, viewing the asset quality and customer contracts as additional sources of downside protection.

Lexmark Common currently holds a relatively heavy weighting in the Fund. The business of manufacturing and selling printers and ink – once a powerful "razor and blades" economic model – is today characterized by intense competition and low growth, but Lexmark continues to generate reasonable cash flow and enjoys a strong financial position. Management has started to exit less profitable lines of businesses and to invest in new initiatives, such as software, and has returned significant amounts of excess capital to shareholders. Declining 8% this year, the shares

[8] Bank of America Merrill Lynch Small Cap Research, April 2, 2012.

are valued at approximately seven times earnings and yield 4%, suggestive to us the market believes the company is headed for imminent extinction. It isn't. Lexmark Common has tested our patience, but we believe it remains mispriced by the public markets at a level unjustified by the company's basic fundamentals.

In recent periods Fund Management had been selling shares of Cross Country, which specializes in temporary healthcare staffing, at significantly higher levels than the current quote – reflecting our belief that the weak economic recovery had depleted the company's near-term earning power. While the longer-term outlook for the business ought to remain positive, the declines in the share price in recent periods appear to give almost no recognition of the possibility of an earnings recovery. As such, we believe the shares merit their smallish position.

Cloud Peak shares started a gentle descent almost the minute we placed our first order and, as of April 30, 2012, were below the Fund's cost basis.

CASH IS KING

We noted earlier that the Fund's cash level is currently above its normal range of 5% to 10% of the Fund's assets. Sometimes cash is created involuntarily, such as with the Viterra takeover. But more often than not, cash (actually, mostly Treasury bills in the case of the Fund) is a by-product of our investment process and reflects our defensive nature and conservative tendencies. As much as anything else, this posture reflects my personal holdings in the Fund as well as those of my partners, friends and family who seem to care more about losing money than keeping up with an index. It also reflects our opportunity set, as we view it, and our desire to maintain a strong buy discipline. With government credit markets rigged against savers to the point where real returns on government obligations have turned negative, it is easy to lose sight of the virtues of cash. In the current rate environment, cash held over longer periods of time will be counterproductive. But to my mind, cash has two very important characteristics: it is virtually alone in terms of its correlation to risk assets; and it is an oasis during times of market turmoil when investing opportunities become most abundant. We expect the Fund's excess cash to decline in coming periods given the productive start we have had this quarter and the continued expansion of our idea inventory.

I want to take this opportunity to make a special thanks to my long-time colleague Charlie Page whose thinking, writing and editing are key pieces of each quarter's letter and whose insights are essential to the construction of the portfolio.

I look forward to writing you again when we publish our Third Quarter report dated July 31, 2012. Thank you for your continued support.

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
(Unaudited)

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

JASON WOLF
CO-PORTFOLIO MANAGER OF
THIRD AVENUE REAL ESTATE VALUE FUND

Dear Fellow Shareholders:

Portfolio activity during the quarter primarily consisted of selling securities and taking profits on recent appreciation. Third Avenue Real Estate Value Fund (the "Fund") reduced its holdings in three common stocks and eliminated its holdings in six common stocks. Five of the securities sold were common stocks of "housing-related" businesses in the United States and the United Kingdom – Lowe's Common, Taylor Wimpey Common, Bellway Common, Berkeley Common and Lennar Common. All were added to the portfolio within the past two years. These were contrarian investments initiated at depressed valuations at times when these companies were particularly out-of-favor. The common thesis for these investments was that each company was well-positioned, financially and strategically, to be a prime beneficiary of the ultimate recovery in the U.S. and U.K. housing markets. At the time of the investment, each company's near-term outlook was very uncertain, but Fund Management believed that long-term prospects were very strong. The recovery of many housing-related stocks over the past six months came as somewhat of a surprise since, in Fund Management's opinion, the housing industries in the U.S. and U.K., while showing signs of improvement, are clearly not yet running on all cylinders. There are still too many uncertainties in global and domestic economics and much work (political and financial) remains to get the residential mortgage markets functioning properly again.

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

Notional Amount	New Positions Acquired
AUD 135 million	Australian Dollar Calls (sold) expires 6/6/12 ("Aussie June Calls")
AUD 135 million	Australian Dollar Puts (bought) expires 6/6/12 ("Aussie June Puts")
AUD 35 million	Australian Dollar Calls (sold) expires 8/6/12 ("Aussie August Calls")
AUD 35 million	Australian Dollar Puts (bought) expires 8/6/12 ("Aussie August Puts")

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, 2012: Forest City Enterprises, Inc., 8.15%; Brookfield Asset Management, 5.23%; Hammerson PLC, 4.88%; Cheung Kong Holdings, Ltd., 4.40%; Lowe's Cos., Inc., 3.71%; Wheelock & Co., Ltd., 3.49%; Taylor Wimpey PLC, 3.24%; Weyerhaeuser Co., 3.23%; Vornado Realty Trust, 3.18%; and Hysan Development Co., Ltd., 2.98%.

Investment Amount, Notional Amount, Number of Shares or Contracts	Increases in Existing Positions
$1,000,000	Alliance Bernstein Legacy Securities (C 1) Fund, L.P. Limited Partnership Interest ("Alliance Bernstein LP Interest")
500,000 shares	Segro PLC Common Stock ("Segro Common")
¥1,000,000,000	Japanese Yen/U.S. Dollar Forward Foreign Currency Contracts ("JPY/USD Forward")
	Positions Reduced
10,049,000 shares	CapitaLand Ltd. Common Stock ("CapitaLand Common")
831,770 shares	Lowe's Companies, Inc. Common Stock ("Lowe's Common")
13,200,000 shares	Taylor Wimpey PLC Common Stock ("Taylor Wimpey Common")
	Positions Eliminated
AUD 35 million	Australian Dollar Calls (sold) expires 6/6/12 ("Aussie June Calls")
AUD 35 million	Australian Dollar Puts (bought) expires 6/6/12 ("Aussie June Puts")
2,196,068 shares	Bellway PLC Common Stock ("Bellway Common")
308,778 shares	Berkeley Group Holdings PLC Common Stock ("Berkeley Common")
1,686,371 shares	General Growth Properties, Inc. Common Stock ("General Growth Common")
1,999,293 shares	Lennar Corp. Common Stock ("Lennar Common")
63,254 shares	Rouse Properties, Inc. Common Stock ("Rouse Common")
4,692,100 shares	Sun Hung Kai Properties, Ltd. Common Stock ("Sun Hung Kai Common")

Contracts	Positions Eliminated (continued)
18,721 contracts	Hang Seng Property Index January 2013 HKD22,947 Calls
17,800 contracts	Hang Seng Property Index January 2013 HDK24,026 Calls ("Hang Seng Property Index Calls")

SELL DISCIPLINE

One characteristic of Third Avenue's funds, including the Real Estate Value Fund, is the consistent low portfolio turnover. According to Morningstar, the average annual turnover rate for global real estate mutual funds was 76% in 2011 and 72% for the trailing ten years. The Real Estate Value Fund's portfolio turnover was 32% in 2011 and 20% for the trailing ten years. This low-turnover approach to investing in real estate securities reduces transaction costs and lends itself to tax-efficient capital appreciation over the long term, which is our ultimate goal.

More recently, however, the Fund has become slightly more active buying and selling securities. That is not to say that we have changed our stripes. Our ideal investment holding period remains forever. However, the most recent investment climate has been characterized by volatile markets caused mainly by external events (e.g., QE1, QE2, debt downgrades, European sovereign debt restructuring, etc.). This climate provided us with a number of interesting buying opportunities in late 2011. It is now providing some compelling selling opportunities. That we are able to pursue this more active investment management strategy is partly due to continuous improvements in our investment process (e.g., our "T2 Portfolio" or list of securities that we desire to own but at lower prices) and partly client-driven, as the Fund's number of outstanding shares has been relatively stable. It seems that now, more than ever, we are in the capital recycling business. For example, by taking advantage of volatility in the market prices of securities, we have owned and "recycled" the debt or equity of General Growth Properties three times since the financial crisis.

On the heels of one of our most active buying periods (late 2011) since the Fund's inception, our fiscal second quarter produced the most active voluntary selling (harvesting) program in the Fund's history. Selling is arguably the most difficult aspect of the investment process. In fact, selling is much harder than buying, as the psychological decision to sell often creates doubts and pessimism in contrast to the buy decision, which is often filled with fewer doubts but a sense of optimism. Separating the emotion and regret often associated with selling requires discipline and the willingness to risk making mistakes. The trouble is, only time will tell if the decision was sound.

Our investment strategy places a great deal of importance on high-caliber management teams that have the experience, desire, skills and courage to operate their businesses with a long-term strategy similar to the way we operate the Fund. This prerequisite requires confidence in making the hard decisions. For example, we recommend and expect companies to sell fully valued assets that offer modest future return potential and to redeploy the proceeds either into higher returning investments (if available) or share repurchases (if their common stock is undervalued and represents the best return potential). If the environment is not currently offering such investment opportunities, they should retain that capital until opportunities arise. Easy to say, harder to do, especially when market participants are seeking short-term gratification and management teams are evaluated based on meeting short-term objectives (e.g., stock price, quarterly earnings per share, etc.) instead of long-term value creation.

"Our investment strategy places a great deal of importance on high-caliber management teams that have the experience, desire, skills and courage to operate their businesses with a long-term strategy similar to the way we operate the Fund. This prerequisite requires confidence in making the hard decisions. "

Consistent capital recycling is an arduous operating strategy to pursue due to the constant challenge of finding the next new suitable investment, subjecting the manager to potential short-term relative underperformance in pursuit of long-term gains. Much like the management teams we desire to be aligned with, we have accepted the challenge of managing the Fund with such an active approach, as evidenced by our sales activity and cash build-up during the quarter. Our sell discipline is similar to the analysis that our corporate management teams employ when deciding whether to sell a portion or the entirety of an asset, or even selling the company. Our sell discipline typically falls under four categories: (1) price appreciation to full value, (2) re-sizing positions, (3) changes in our investment thesis (including mistakes) and (4) resource conversions, including M&A. Selling activity during the quarter included three of these four categories:

•**Price Appreciation to Full Value:** At the outset of each new investment, we establish an investment plan that includes our conservative estimate of underlying value. This plan typically includes various paths which our investment may take in generating the acceptable targeted return. Undoubtedly, the projected path and the actual path often vary in duration and course. As value investors, we are known to acquire the "down-and-out with potential" with the intention of selling when the security transitions to a "must-own because of growth potential." The homebuilding sector is an illustrative example. Our investment in Lennar Common was initiated in May 2010. Lennar was an undervalued (discount to adjusted book value) high-quality company with various short-term issues that we believed could be overcome with time. We established our price objective based on the long-term average of potential earnings in a more normalized housing market. As is usually the case with homebuilder shares, "recovery anticipation" is all that is needed for shares to rebound. Over the past six months, there seemed to be glimmers of improvement in the U.S. housing market, and recovery anticipation took hold, resulting in the stock price breaching our target, triggering the sale of our shares. To be clear, the sale of Lennar Common was not a macro call on whether the housing market is in full recovery or just stabilizing; it was a result of the security reaching full value based on our analysis. We reached the same conclusion on several of our more cyclical investments, including Berkeley Common and Bellway Common (both U.K. homebuilders), as well as our third trip with securities of General Growth Properties.

- **Re-sizing Positions in the Portfolio:** In order to de-risk positions in their property portfolio, real estate companies often sell minority stakes in properties they believe are approaching full value. In a similar vein, we re-sized several positions during the quarter, as they appreciated to position weightings that we viewed as inappropriate given the return prospects. As we outlined in our October 2011 shareholder letter, we have learned from previous failures to reduce position sizes when valuations became stretched (e.g., Forest City and St. Joe). We do note, however, that valuations are dynamic, and as factors change, our analysts attempt to evaluate the relative inputs into the prospective return. During the quarter, we reduced position weightings in Taylor Wimpey Common, CapitaLand Common and Lowe's Common as the overall position sizes grew too large for the prospective return profiles. Taylor Wimpey, a U.K. homebuilder that we first acquired in April 2011, appears to be "on the bridge" to becoming a growth stock, yet still trades at a meaningful discount to our estimate of NAV. CapitaLand, a Singapore-based real estate operating company and holding company, appreciated rapidly during the quarter and we opportunistically sold shares while retaining a reasonable position size. Lowe's continues to gain traction with investors as a primary beneficiary of a housing recovery. We first acquired Lowe's Common in June 2011. Despite the stock's positive performance, we believe it is still undervalued and represents a 3.71% position weighting at quarter end.

- **Change in Our Investment Thesis:** Consistent monitoring of our holdings is a vital part of our investment process. Challenging our investment thesis and searching for disconfirming information is essential. A subtle shift in direction is usually tolerable, as long as it doesn't damage the core thesis. But a dramatic change in consequences can result in swift action despite the associated cost. Our unfortunate experience with Sun Hung Kai Properties, a Hong Kong developer, during the quarter is a prime example. On March 19, 2012, Sun Hung Kai disclosed that one of its executive directors had been arrested by Hong Kong's Independent Commission Against Corruption ("ICAC") in connection with a bribery investigation. We immediately reduced our position in Sun Hung Kai Common in response to the arrest and allegations. Then, on March 29, 2012, trading in Sun Hung Kai Common was halted pending the announcement that ICAC had arrested the two Joint-Chairmen of Sun Hung Kai, also on allegations of bribery and corruption. We sold the remainder our shares when the stock resumed trading on March 30, 2012. While the investigations remain preliminary and no formal charges have been made, one of our initial theses for owning the stock – the company's unblemished track record which resulted in a premium share rating from investors – has now been tarnished for an extended period, regardless of the outcome. Again, only time will tell if eliminating the position was an overreaction on our part, but our instincts side with caution. The Fund realized a small loss on its investment in Sun Hung Kai Common.

- **Resource Conversion Activity:** Since the Fund's inception in 1998, privatizations, mergers and acquisitions have been common and profitable exits from our investments. A transaction in which the private market recognizes value at a premium to the public market is an ideal exit, assuming the transaction is consummated at a fair price. Even in situations where the privatization price does not reflect our estimate of full intrinsic value, they are often at substantial premiums to the public market value. The Fund did not experience any of this activity during the quarter, but we expect that the gradual improvement in capital markets activity will eventually result in transactions in which the Fund will be a beneficiary. In fact, we have identified several candidates in our portfolio that we consider to be obvious takeover candidates once "animal spirits" renew. Real estate is an investment sector that easily supports relative valuation analysis. Wide disparities between prices of similar assets within the same geographies (particularly in publicly-traded companies), coupled with synergies gained by removing corporate costs, easily justify M&A activity. As an additional catalyst, it is our opinion that publicly-traded real estate companies, particularly outside the U.S., offer potential acquirers (e.g., private equity and sovereign wealth funds) an attractive discount compared to buying in the physical market.

Due to significant selling activity, cash and equivalents accounted for 18% of the Fund's net assets at quarter-end. We acknowledge that the cash balance may forfeit short-term returns if the global market for real estate securities continues higher. However, we balance that risk with our ability to be aggressively opportunistic if renewed macro-economic fears create compelling investment opportunities (similar to August 2011, when the Fund invested nearly all of its available cash reserves). In the meantime, we believe the Fund is particularly well positioned to generate reasonable returns despite the potential cash drag. At quarter-end, our securities portfolio (excluding cash) is trading at an aggregate discount of 20% to our estimates of NAV. We note that a discount of this magnitude has occurred only twice since the financial crisis (March 2009 and September 2011). One might logically ask: if the discounts are that large, why do we not simply allocate more cash to our existing holdings? Our hesitancy to do so is primarily based on portfolio management risk considerations, such as concentration in position sizes and geographies, and trading liquidity.

"Within four months after we filed the Schedule 13D, Forest City announced that it has (i) reduced the size of its Board of Directors and going forward the majority of Directors will be independent, (ii) undertaken steps to divest portions of its land development business and other non-core assets, and (iii) vastly improved disclosure along with highlighting some of the key metrics used to value real estate companies."

While selling securities was our primary activity during the quarter, there were several notable corporate developments in our portfolio that give us confidence that the discounts to NAV will continue to narrow. Westfield, Dexus and Segro each announced substantial asset sales at prices above their appraised values. Hammerson announced that it would be selling its high-quality office portfolio to become a focused retail REIT. Due to their strengthened financial position from asset dispositions and/or effective balance sheet management, Commonwealth Properties, Westfield, Dexus and Lowe's each pursued stock buyback programs. Cheung Kong, Brookfield, Wheelock, CapitaLand and Hysan either raised their dividends to shareholders or announced special dividend payouts. In addition to the corporate developments at our individual holdings, the prolonged period of low interest rates continues to benefit real estate companies in two important ways: the relative yield on real estate investment remains ultra-attractive; and high quality companies with strong financial positions are afforded the ability to access extremely cost effective capital (bank funding or bond issuance) to pay off more expensive maturing debt and to fund future expansion opportunities.

Also of note were corporate developments at Forest City Enterprises, the Fund's largest position. As highlighted in our year-end shareholder letter, Fund Management filed a Schedule 13D with the Securities and Exchange Commission indicating that we became active and had initiated discussions with company management regarding strategic initiatives it could take to enhance shareholder value. Among other suggestions, we encouraged the company to modernize its corporate governance, divest non-core assets and improve transparency. Within four months after we filed the Schedule 13D, Forest City announced that it has (i) reduced the size of its Board of Directors and going forward the majority of Directors will be independent, (ii) undertaken steps to divest portions of its land development business and other non-core assets, and (iii) vastly improved disclosure along with highlighting some of the key metrics used to value real estate companies. Recently, Fund Management changed its filing with the SEC back to a Schedule 13G, indicating that our investment in Forest City Common is once again passive. We are confident that Forest City management has set the wheels in motion that should ultimately eliminate the large discount at which Forest City Common trades relative to NAV and its real estate peers. Sometimes it pays to be the "squeaky wheel". Since we filed the Schedule 13D in October 2011, the trading price of Forest City Common has risen nearly 60%, yet remains at a substantial discount to our estimate of NAV.

We appreciate the support and confidence you have placed in us to manage your capital and look forward to writing to you again next quarter.

Sincerely,

Michael H. Winer	Jason Wolf
Co-Portfolio Manager	Co-Portfolio Manager
Third Avenue Real	Third Avenue Real
Estate Value Fund	Estate Value Fund

Third Avenue International Value Fund
(Unaudited)

AMIT B. WADHWANEY
CO-PORTFOLIO MANAGER OF
THIRD AVENUE INTERNATIONAL VALUE FUND

MATTHEW FINE
CO-PORTFOLIO MANAGER OF
THIRD AVENUE INTERNATIONAL VALUE FUND

Dear Fellow Shareholders:

In the most recent quarter, Third Avenue International Value Fund (the "Fund") established one new position, added to our positions in eight companies, reduced three existing positions and eliminated three positions.

Number of Shares	New Position Acquired
80,906 shares	Otsuka Corporation Common Stock ("Otsuka Common")
	Increases in Existing Positions
931,642 shares	Atrium European Real Estate, Ltd. Common Stock ("Atrium Common")
5,979,000 shares	Daiwa Securities Group, Inc. Common Stock ("Daiwa Common")
5,339,208 BDRs	GP Investments, Ltd. Brazilian Depository Receipts ("GP Investments BDRs")
580,000 shares	Guoco Group Limited Common Stock ("Guoco Common")
91,464 shares	Pargesa Holding S.A. Common Stock ("Pargesa Common")

Number of Shares	Increases in Existing Positions (continued)
331,100 shares	Precision Drilling Corporation Common Stock ("Precision Drilling Common")
729,097 shares	Segro PLC Common Stock ("Segro Common")
93,256 shares	Titan Cement Company Common Stock ("Titan Common")
	Decreases in Existing Positions
242,730 shares	Alma Media Corp. Common Stock ("Alma Media Common")
1,392,300 shares	Dundee Precious Metals, Inc. Common Stock ("Dundee Common")
4,322,850 shares	Viterra, Inc. Common Stock ("Viterra Common")
	Positions Eliminated
41,679 shares	Andritz AG Common Stock ("Andritz Common")
72,271,095 shares	Catalyst Paper Corporation Common Stock ("Catalyst Common")
461,416 shares	Sampo Oyj Common Stock ("Sampo 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, 2012: WBL Corp., Ltd., 8.41%; Netia S.A., 6.05%; Taylor Wimpey PLC, 4.09%; Weyerhaeuser Co., 3.78%; Sanofi, 3.38%; White Mountains Insurance Group Ltd., 3.37%; Leucadia National Corp., 3.35%; Daiwa Securities Group, 3.16%; Munich Re, 2.74%; and Mitsui Fudosan Co., Ltd., 2.63%.

REVIEW OF QUARTERLY ACTIVITY

For the second time in as many quarters, we initiated a new investment in a Japanese company. This quarter we purchased shares in Otsuka Corporation ("Otsuka"), which is one of the leaders in the Japanese information technology ("IT") services space. Specifically, the company provides IT consulting services to Japanese companies, primarily small and medium-sized enterprises, for the purpose of selling the hardware and software involved in IT solutions. Otsuka is the largest reseller of a number of major brands of office equipment, such as copiers, printers, PCs and the like, as well as software packages from major global software companies. As can be imagined given the parlous state of the Japanese economy, small and medium-sized enterprises have been somewhat less inclined to make major investments in information technology.

Despite the challenging environment, Otsuka enjoys stable operating results, largely due to from their rapidly growing office supply distribution business. This business segment was initiated in the late 1990s, grew rapidly through the 2000s by serving Otsuka's existing customer base, and continues to grow nicely. The development of this business and the vigor with which it was grown may be partly attributable to Otsuka's unusual ownership structure. Otsuka is a rare breed of Japanese company, in that it is family-controlled and its corporate behavior very much reflects a for-profit approach.

Despite the fact that the majority of its business lines are currently depressed by Japanese macroeconomic factors, Otsuka is extremely profitable, we consider its shares to be inexpensive and its prospects for growth are quite reasonable, even in the absence of an economic recovery. Should any type of confidence develop within the Japanese business community, Otsuka has the potential to show some excellent results. The company has considerable net cash and, even in the current environment, distributes material amounts of free cash flow to shareholders.

Three securities were sold during the quarter, including Catalyst Paper, which was discussed in last quarter's letter.

A second disposition was Andritz Common. The Fund acquired shares of Andritz AG, an Austrian capital goods manufacturer, in 2009 during a period of considerable perceived uncertainty relating to its order book. When the dire outcomes envisioned did not eventuate and the order book held up and, in fact continued to grow, the shares repriced upward. Given its full valuation, we chose to sell and redeploy the capital elsewhere.

The third disposition during the quarter was Sampo Common. Shares of Sampo Oyj ("Sampo") were acquired during the early stages of the global financial crisis in late 2008. We were attracted to the company's unusually strong balance sheet – it had €1 billion in unencumbered cash and €3 billion in excess capital – as well as its history of value-creating resource conversion activities. We expected that Sampo's management team would utilize this strong financial position to take advantage of a potential financial meltdown in the Nordics and build up its business. Since the time of our investment, Sampo has indeed done this, using its cash to build a 21% stake in Sweden's largest bank, Nordea, and ultimately recapitalizing it. Unfortunately, the Nordic financial system (outside of Iceland) proved to be more resilient than we initially expected and we did not see the large scale failures of financial institutions that would have enabled strongly capitalized companies like Sampo to drive more aggressive consolidation and restructuring. Given the strong performance of Sampo's stock and availability of more attractive opportunities elsewhere, we exited the position during the quarter.

VITERRA – THE JOURNEY

During the quarter, Viterra Inc. ("Viterra") received a takeover offer from Glencore International plc, one of the world's biggest commodities marketers. It looks increasingly likely that the offer will clear all regulatory hurdles and close by July of this year. This sale will close the books on a successful six-year investment that has generated an internal rate of return of almost 20.5% for the Third Avenue International Value Fund. It may be useful to recapitulate the history of our involvement with Viterra, to highlight the differences between Fund Management's approach to value investing and the more standard investment methodology that is focused on forecasting operating earnings and cash flows.

Our history of agricultural investments goes back to the mid-1990s. We have had exposures to various agricultural businesses around the world, including commodities trading, cattle farms, tea plantations and palm oil plantations; and, over the years, we have learned much about the economics of agriculture. With the increasing global demand for food and rising concerns about supply, we have noticed the growing importance of agricultural supply chains and the attractiveness of their underlying economics. An area of particular interest has long been grain supply chains, given the large volumes that need to be moved and the sizeable distance between the producer and the ultimate consumer, both of which give rise to considerable revenue opportunities. Control of such a supply chain increases the ability of a food buyer or trader to source supply and capture margin along other stages of the chain. In addition, the supply chain infrastructure tends to have elements of local monopoly and potential pricing power vis-à-vis the farmers. These elements of market power stem from the limit to the number of grain elevators (an integral part of the supply chain) that can profitably coexist within a given geographic radius. As well, the capital expenditure these elevators entail acts as a further deterrent to new entrants. However, in two of the largest grain exporting countries, Canada and Australia, the grain supply chains (consisting of grain elevators, silos and port terminals) have historically been heavily regulated and were owned predominantly by co-operatives. The businesses were run as utilities, with little attention given to returns on capital or value-creating strategies. That changed rather drastically between 2005 and 2007.

"This sale will close the books on a successful six-year investment that has generated an internal rate of return of almost 20.5% for the Third Avenue International Value Fund. It may be useful to recapitulate the history of our involvement with Viterra, to highlight the differences between Fund Management's approach to value investing and the more standard investment methodology that is focused on forecasting operating earnings and cash flows."

The roots of Viterra go back to 1924, when its predecessor company, Saskatchewan Wheat Pool ("SWP"), was incorporated pursuant to a private act of the Saskatchewan legislature – and, thus, not subject to corporate governance requirements of the Canada Business Corporations Act ("CBCA"). Even after listing on the Toronto Stock Exchange, the company had multiple classes of shareholders with different governance rights and was controlled by farmers' representatives, in a rather unwieldy arrangement. In the late 1990s, it embarked on an aggressive, debt-funded capital expenditure program that built a modern, high-throughput elevator network throughout the Canadian Prairie provinces, just in time for three successive years of drought when grain volumes fell to a fraction of their long-term average. This culminated with the financially-leveraged SWP being forced to restructure in 2005, converting debt to equity, reincorporating under the CBCA, and changing its corporate governance procedures to those of a conventional corporation. This process caught our attention, as we saw SWP emerge from its restructuring with a clean balance sheet, a sensible corporate structure, the most modern and efficient network of grain elevators in Canada and an attractive valuation. Most investors showed little interest in this weather-sensitive agricultural stock, which had had a very recent near death experience, and its price languished at these low valuations. We initiated our position in the first quarter of 2006.

We shared the company's belief that the restructured SWP should take the offensive in consolidating and rationalizing the supply chain in Western Canada, and we enthusiastically provided equity financing for SWP's daring hostile takeover offer for Agricore United, its largest competitor, which at the time was an unthinkable act. When the takeover successfully closed in July 2007, the merged company, now called Viterra, Inc., became the dominant grain elevator network in Western Canada with 45% market share in grain handling receipts and 50% share of port terminal capacity.

At roughly the same time, a similar opportunity presented itself in Australia. ABB Grain ("ABB"), owner of 90% of South Australia's grain silos and elevators and 100% of its export terminals capacity, was going through an important corporate change itself. The company, which was controlled by South Australian farmers, lost its monopoly on South Australian barley exports when Australia dismantled its single-desk marketing boards and at the same time deregulated the market. This allowed ABB to participate along the supply chain, all the way to the end consumer. Needless to say, institutional investors (both in Australia and overseas) largely ignored this development. We initiated our position in ABB as a drought reduced the company's earnings and depressed the stock price.

Notwithstanding its near monopoly status in the states of South Australia and Victoria and the opportunities presented to it by the deregulation of the Australian grain market, ABB continued to operate much like a farmer's co-op rather than as a commercially focused, profit-maximizing entity. As shareholders of Viterra, which had made that behavioral transition some years earlier, and was run with a keener commercial eye, we introduced the two companies with the intention that they share "best practices" with one another. A year later, Viterra made an offer to acquire ABB Grain. This combination, which created today's Viterra, made plenty of sense: the merged company was less exposed to regional weather risk, became a more important supplier to global commodity trading houses, and the strategic value of its sourcing and marketing reach took a significant step up.

The final obstacle preventing Viterra from fully realizing the potential of its assets was the continuing regulation of grain exports in Canada. The Canadian Wheat Board ("CWB"), which was created during the Great Depression, has a monopoly on the marketing of Western Canadian feed grade wheat and barley for export. It also allocates rail cars to grain elevators. CWB's regulation made it difficult to provide value-added services to buyers of Canadian grain (such as segregation through the supply chain) and prevented operators of efficient grain elevators from benefiting fully from their high throughput potential.

The Canadian government announced, after the May 2011 election, that it would remove CWB's monopoly powers and open up the Western Canadian grain market. Legislation was passed in December 2011 and deregulation will take effect from August 2012. In a deregulated market, the strategic value of Viterra's infrastructure becomes even more important, which is a fact that has not been lost on the global commodities trading houses. Within months of passing the deregulation law, Viterra attracted the attention of several potential acquirers, culminating in a takeover offer led by Glencore International. The offer came at an attractive valuation and brought a highly satisfactory end to our investment.

The point of sharing this odyssey with our readers is to use the example of our investment in Saskatchewan Wheat Pool / ABB Grain / Viterra to highlight a number of features of our investment philosophy that separate us from other value investors.

- **Focus on asset values, rather than earnings or cash flows.** From the very beginning, it was the quality and reach of Viterra's assets that attracted our attention.

The company's grain elevator, storage and port terminal networks in Western Canada and South Australia would be virtually impossible to replicate. Under the farmers' control these assets were not fully utilized, but we trusted that a commercially-driven management team would realize their strategic value and financial potential.

- **Value creation through resource conversion activities.** The Viterra example is a wonderful illustration of the wealth-creation powers of resource conversion. A relatively smaller part of the value creation in this case came from improving earnings or cash flows. A number of different resource conversion activities drove up shareholder value: the restructuring of SWP's balance sheet in 2005, the acquisition and integration of Agricore United in 2007, the merger of Viterra and ABB Grain in 2009 and, finally, the Glencore offer in 2012. Each of these had a sound commercial and strategic rationale behind them and all were executed flawlessly by Viterra's management.
- **Sensitivity to corporate ownership.** An important trigger and, indeed, a prerequisite for our investments in both Saskatchewan Wheat Pool and ABB Grain was the conversion of farmer-dominated quasi-cooperative structures into single share class, shareholder-oriented companies that gave management the freedom to pursue hitherto unavailable opportunities to create value.
- **Travelling on untrodden ground.** We were the first institutional investor in ABB Grain's shares after the company changed its constitution in 2007 and, until its acquisition by Viterra, we were its largest shareholder. We were also one of the few institutional investors in Viterra throughout its history. We can only speculate why even local institutions in Australia and Canada (with the notable exception of Alberta Investment Management Corporation) failed to recognize the potential of the assets sitting in plain sight.
- **Patience and thinking like an owner.** In a world of diversified funds with hundreds of positions and 100+% turnover ratios, it is unusual to commit to an investment that takes more than six years to fully realize its potential. This is complemented by a mindset akin to that of being a part-owner of a business, responding to the company's calls for acquisition capital when it was attempting to execute a hostile takeover of a larger competitor or attempting to nudge the companies toward the adoption of better commercial practices in order to realize improved rates of return on existing assets. We believe that being concentrated and patient investors pays off in the end and our long-term investment horizon is a powerful differentiator.

With our ultimate exit from the Viterra position, the Fund will receive a cash inflow that we intend to invest following principles similar to those we have applied in this situation. We have a number of interesting opportunities in the pipeline and we look forward to discussing these with you in future letters.

GEOGRAPHICAL DISTRIBUTION OF INVESTMENTS

At the end of April 2012, the geographical distribution of securities held by the Fund was as follows:

Country	% of Net Assets
United Kingdom	10.80
Japan	10.01
Singapore	9.20
United States	8.68
Germany	7.33
Poland	6.05
Canada	5.99
France	5.44
Hong Kong	4.66
Bermuda	3.37
Switzerland	2.57
Austria	2.56
South Korea	2.47
Taiwan	2.46
Greece	2.16
Norway	2.04
New Zealand	1.86

Third Avenue International Value Fund (continued)
(Unaudited)

Country	% of Net Assets
Chile	1.76
Brazil	1.50
Finland	0.16
Equities-total	91.07
Cash & Other	8.93
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.

We look forward to writing to you again when we publish our Quarterly Report for the period ended July 31, 2012.

Sincerely,

Amit Wadhwaney
Co-Portfolio Manager,
Third Avenue International Value Fund

Sincerely,

Matthew Fine
Co-Portfolio Manager,
Third Avenue International Value Fund

Third Avenue Focused Credit Fund
(Unaudited)

THOMAS LAPOINTE
PORTFOLIO MANAGER OF
THIRD AVENUE FOCUSED CREDIT FUND

Dear Fellow Shareholders,

There is a dilemma. The U.S. economy continues to improve. Corporate default rates remain lower than average; employment numbers continue to improve (though the numbers are volatile); and even the residential real estate markets have shown signs of bottoming. However, bonds issued by European peripheral countries, like Italy and Spain, pay roughly the same yields as corporate high-yield bonds and loans, even though owners of Spanish and Italian bonds face far greater risk of permanent impairment. This situation cannot endure forever. Some of the money invested in European peripheral sovereigns will likely be reallocated to high-yield bonds and floating rate loans – two better positioned assets that provide roughly the same income.

In the fixed-income markets, rational investors have a choice to make and that choice seems pretty clear. There are only a few ways to get the 7% to 8% yield insurance companies, pension funds and other institutions worldwide require. The first is high-yield bonds and loans. The second is the European peripheral sovereigns. The third is to buy a relatively risk-free asset, like U.S. Treasuries or German bunds, and then to risk them up by taking on five times leverage. We believe that, in this environment, corporate high-yield bonds and loans seem prudent.

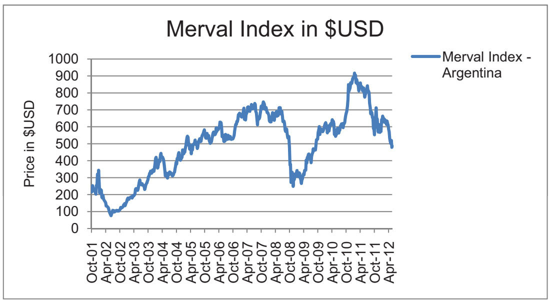
Imagine that a portfolio of a hundred high-yield issues would have a default rate of 5%, which is more than double the current default rate for these assets. Imagine, even more pessimistically, that for every company that defaults, the recovery is zero. So long as spreads do not widen, this portfolio produces a gain of two percent (after deducting 5% in losses but accounting for 7% coupon payments) for the first year. In reality, recovery rates in corporate defaults tend to be closer to 50% and there is the possibility to recoup losses and even make money by taking equity in reorganized companies.

Sovereign debt offers similar upside potential – 7% to 8% yields to maturity. But the downside is very different. It is impossible to know when a people or its government will get fed up and choose to default on its debt obligations. There is no reliable way to tell, for example, how long Greece will allow Germany to punish its people with

* Portfolio holdings are subject to change without notice. The following is a list of Third Avenue Focused Credit Fund's 10 largest issuers, as of April 30, 2012: Lehman Brothers Holdings, 5.57%; IntelSat Luxembourg SA, 3.79%; Caesars Entertainment Operating Co., Inc., 3.12%; Clear Channel Communications, Inc., 3.11%; Hurcules Offshore, Inc., 3.07%; Citycenter Holdings, 3.04%; Energy Future Holdings Corp./TXU Corp., 3.02%; Sprint Capital Corp., 2.89%; Cemex Finance, 2.89% and Nuveen Investments, Inc., 4.12%.

austerity for the privilege of remaining in the eurozone. In the current crisis, Iceland has already said no and is, by some measures, better off for it. Eleven years ago, Argentina said no to its creditors and devalued its currency. Its people did well – the economy returned to growth within 18 months and, more than a decade later, Argentina's creditors have not been satisfied.

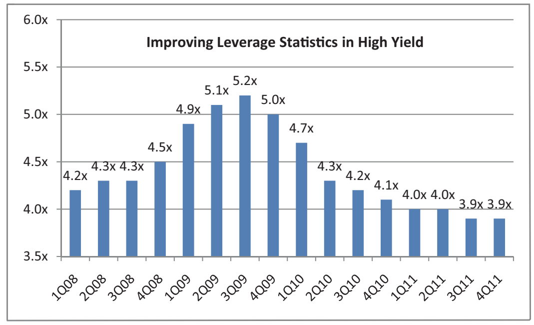
As illustrated in the chart below, even though Argentina de-pegged from the U.S. Dollar and devalued its currency, its stock market, in U.S. Dollar terms, did quite well — increasing by 250%, even when the S&P 500 Index was close to unchanged over the same time period.



The "problem" with a democracy is that people vote. Most of the time, they will vote their self-interests, not the interests of some wider currency union or network of international bondholders. Greece's people might well look to Argentina's example and choose to default a second time – and they may be smart to do so.

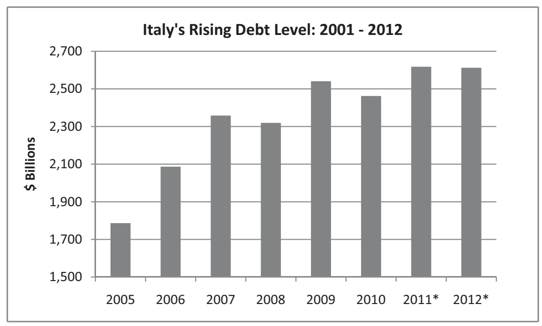
Unlike investing in corporate debt securities, there is no equity to be taken from a defaulted sovereign. Nor is there a normal bankruptcy proceeding. Creditors will lose what the defaulting party decrees they will lose. So, the choice between a portfolio of high-yield bonds and loans and a portfolio comprised of European sovereign debt, which both pay the same, is really the choice between the possibility of relatively modest losses, versus the possibility of unquantifiable losses. For example, Greek and Argentine bonds now trade at 15 cents to 30 cents on the dollar.

The absurdity of the parity between high-yield bonds and loans and European peripheral sovereign debt is made all the more explicit when you look at the fundamentals of the borrowers. As illustrated below, high-yield borrowers have seen their balance sheets improve mightily since 2009.

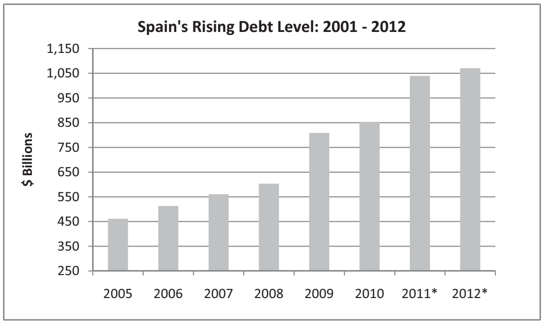


Source: JPM research

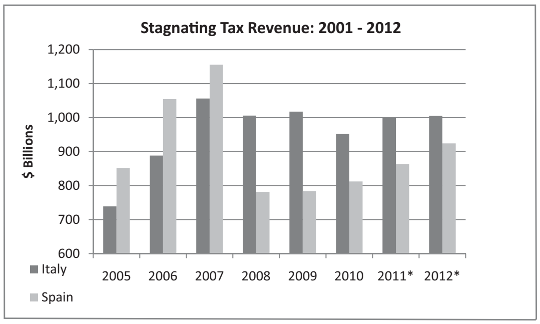
As the tables below indicate, for European borrowers, the situation has deteriorated since 2009, with tax receipts dwindling and debt rising at an ever quickening pace.



*Forecasted
Source: Moody's Statistical Handbook



*Forecasted
Source: Moody's Statistical Handbook



*Forecasted
Source: Moody's Statistical Handbook

European financial authorities have made great efforts to reverse these misfortunes. They have bought back bonds, they have provided direct liquidity to banks that have used the money to buy bonds. The European Central Bank ("ECB"), the International Monetary Fund and the European Commission have established and used emergency funds and embarked on long-term refinancing operations ("LTRO"). Greece even defaulted and restructured its debt only to come out the other side even weaker than it went in. Numerous attempts to restore growth have failed and it has become increasingly hard to see how this gets fixed; however, we do not expect European financial authorities to stop trying.

History has demonstrated that losses in sovereign restructurings can be large and permanent. Conversely, it has also shown us that losses in high-yield bonds and loans are more likely temporary. During 2008, the worst year for high-yield bonds and loans in two decades, declines were less than 30%. In the following year, 2009, returns for both asset classes exceeded 50%, in part because defaulted corporate debt can be restructured, offering creditors the possibility of meaningful returns.

SELLING INTO A RISING MARKET

There are, generally, three reasons why we might sell a specific portfolio holding:

- **Price Target** – The security reaches full valuation or appreciates to a target price where management believes the future upside is limited, as our thesis has been largely realized.
- **Risk / Reward Profile** – Something has changed, and the new analysis suggests that the probability weighted upside/downside scenario for the security has skewed to the downside. This could be the result of an analytic mistake, or of changing business or market conditions.
- **Portfolio Positioning** – As we construct the portfolio, we are cognizant of industry concentrations, geographic concentrations and our exposure to any one single name. Additionally, we seek to invest in instruments throughout the credit structure (including loans, preferred stocks, convertibles and bonds) and we seek exposure to distressed securities, debt-for-equity deals, capital infusions and performing credits. We tend to limit individual names to 3% and industry concentration to 15%, with occasional exceptions.

During the quarter, Third Avenue Focused Credit Fund (the "Fund") engaged in a historically high volume of securities sales, largely driven by the growing valuations of securities that we purchased at steep discounts, in August and September of 2011, as the high-yield markets corrected violently. Since our purchases last autumn (which put 20% of the Fund's assets to work in a very short amount of time) the high-yield and leveraged loan markets have risen more than 12%, with the distressed market leading the pack with an 18% return.

Every sale made during the quarter was a decision made at the individual security level. Either the bond or loan had reached our price target and was sold; had appreciated to the point where trimming was warranted; or, was sold based on a fundamental change in the company's prospects. Roughly speaking, about 75% of the sales were based on price appreciation.

For example, we sold bonds of Swift Transportation, Digicel, DAE Aviation, MGM, Multiplan, Stallion Oilfield and Trinidad Drilling, all on appreciation and at a profit to the Fund. These sales were at prices between $1.08 and $1.10, with 5% to 6% yields.

In some cases, we sold on new information. During the quarter, we transitioned out of the bonds and bank debt issued by the power generating segment of TXU and into the bonds tied to the regulated utility. In January, Energy Futures Holdings, the TXU entity that owns 80% of the equity in the regulated utility, announced a capital markets transaction in which it issued second lien notes, in order to begin paying down an intercompany loan to the power generation subsidiary. We favored this part of the capital structure from a safety standpoint and found the new current yield attractive. We believe that the regulated utility will continue to prosper, while the merchant power business heads towards restructuring. As such, we traded out of the power generation bonds and into the utility notes. We look forward to strong yield and capital appreciation over the long term (these bonds yield close to 12% at our purchase price). The bonds issued by the power generating segment of the company moved from our portfolio to our idea inventory. We would own them again at the right price.

We exited our investments in Koosharem, a privately-held staffing company, Bronx Parking, and the subordinated bonds of health care provider Rotech, as our analyses of the potential downside for those investments changed.

Finally, we trimmed most of the portfolio's top ten positions. Last autumn, when prices dropped 20-30 points per issue, we significantly increased each of these positions. The subsequent rise in prices prompted us to sell some names, including Nuveen Investments, Harrah's/Caesars, Intelsat and Clear Channel.

This selling activity, combined with inflows, has temporarily elevated the Fund's cash level to 32%, as of the end of the Fund's second fiscal quarter (we started the quarter with 11% cash, a more typical level). We have a deep inventory of ideas, with 20 to 30 companies in the U.S. and Europe, that we have thoroughly researched and would like to invest in at the right price.

This price consciousness has served the portfolio well. Even at current cash levels, the Fund's 30-day SEC yield is 7.3%, which would be impossible to achieve without our 9.9% average coupon (10.8% average yield to maturity) and average 88 cent dollar price. This cash will now serve as a cushion in the event of corrections and will be rapidly deployed as our on-deck securities reach our target prices. Because the Fund is concentrated and tends to build positions at 2% to 3% of Fund net assets, we can become fully invested by adding as few as seven to 10 new investments to the portfolio.

Year to date, the Fund has outperformed both the high-yield index and its Morningstar peers, on the strength of investments that we made last year, particularly in the late summer. The portfolio features less distressed exposure than it did six to nine months ago, as default rates remain low, maturities remain years in the future and fewer companies are enduring difficulties. In the current market environment, our preference remains skewed towards corporate bonds, rather than loans; but, we are closely watching the secondary leveraged loan markets in order to opportunistically increase loan exposure and generate returns superior to our stated fifty-fifty high yield and leverage loan benchmark.

Third Avenue Focused Credit Fund (continued)
(Unaudited)

IT WASN'T ALL SELLING

During the quarter, the Fund received its first distribution from the liquidating estate of Lehman Brothers Holdings. We had conservatively expected 4¢ to 5¢, but the actual distribution was 6¢, or 20% of the value of Lehman's bonds at the time of distribution. We took our cash and reinvested in Lehman bonds, maintaining it as our largest holding at 5.6% of Fund net assets. We believe at current prices, it is not a matter of making money or losing money, but rather how much we make and how soon.

> **"In the current market environment, our preference remains skewed towards corporate bonds, rather than loans; but, we are closely watching the secondary leveraged loan markets in order to opportunistically increase loan exposure and generate returns superior to our stated fifty-fifty high yield and leverage loan benchmark."**

We established a position in Sprint's long-dated bonds with a 10% yield and 75¢ average price. We also purchased senior secured notes from Spanish Broadcasting, a U.S. radio station operator, yielding 12.5%. We bought bonds in New Enterprise Stone and Lime with a 13% yield; cell-phone insurer Asurion's long-term loan, yielding 12%; and we doubled our investment in Hercules Offshore at a yield of 10.5%. Transunion, one of the three credit scoring companies, is a former holding that we brought back into the portfolio at a 9.5% yield.

Since the end of the quarter, we have also established toe-hold positions in five other bonds or loans.

OUTLOOK

We believe that default rates will remain lower than normal as the U.S. economy continues to improve. We are encouraged to see signs that the housing market in North America is bottoming. The improvement in the labor markets, though volatile and sluggish, creates something of a virtuous cycle within the economy, particularly as the long-term unemployed re-enter the labor force. Every long-term unemployed person receives assistance from some part of the social safety net, broadly speaking, be it relatives, friends, a church or local and federal government. When they return to work their financial condition improves, their emotional condition improves and a burden is lifted from whatever entities stepped in to help them. This is the beginning of the multiplier effect of putting people to work. It ends with increased consumer demand, increased industrial demand and a quickening of new hires. There are problems, no doubt and this will not be a linear progression. But the U.S. economy is better off now than it was a year ago and the prices for some of the assets in which the Fund invests have not yet caught up.

We are enthusiastic about our large inventory of ideas and the fact that, as you saw last fall, we can deploy capital rapidly as soon as favorable pricing arises.

I look forward to writing to you again at the end of the Fund's third fiscal quarter in July.

Sincerely,

Thomas Lapointe
Portfolio Manager
Third Avenue Focused Credit Fund

OFFICERS

Martin J. Whitman — Chairman of the Board
David M. Barse — President, Chief Executive Officer
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W. James Hall — General Counsel, Secretary
Joseph J. Reardon — Chief Compliance Officer
Tara Dempsey — Assistant Secretary

TRANSFER AGENT

BNY Mellon Investment Servicing (U.S.) Inc.
P.O. Box 9802
Providence, RI 02940-8002
610-239-4600
800-443-1021 (toll-free)

INVESTMENT ADVISER

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

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP
300 Madison Avenue
New York, NY 10017

CUSTODIAN

JPMorgan Chase Bank, N.A.
14201 Dallas Parkway, 2nd Floor
Dallas, TX 75254

Third Avenue Funds
622 Third Avenue
New York, NY 10017
Phone 212-888-5222
Toll Free 800-443-1021
Fax 212-888-6757
www.thirdave.com