Third Avenue Value Fund

Third Avenue Small-Cap Value Fund

Third Avenue Real Estate Value Fund

Third Avenue International Value Fund

FOURTH QUARTER PORTFOLIO MANAGER COMMENTARY

31 October 2011

Letter from the Founder
(Unaudited)

Martin J. Whitman
Founder, Third Avenue Management, LLC

Dear Fellow Shareholders:

In the main body of this letter I discuss, after re-reading Graham and Dodd's writings on Value Investing, how the various Third Avenue managers are followers of Graham and Dodd, and how these managers are different. Before doing that, there is one macro point in which I believe strongly, and of which you should be aware. There is no way that I can see that those countries involved with the Euro can be made credit-worthy unless all European Sovereign Debt is assumed, or guaranteed, by each member country including, especially, Germany. Such an amalgamation would make Euro Sovereign Debt more comparable to U.S. Treasuries than is now the case. I do not know how the forthcoming European upheavals will work out. But cash rich economies with a plethora of investable funds ought to do okay, provided they are opportunistic. It is comforting to know that so much of Third Avenue Management's common stock investments are in companies operating in Hong Kong, mainland China, South Korea, Canada, Brazil, Australia and Sweden.

GRAHAM AND DODD
REVISED, UPDATED AND PLACED IN CONTEXT

Benjamin Graham and David Dodd ("G&D") were prolific writers, publishing volumes in 1934, 1940, 1951, 1962 and by Ben Graham alone in 1971. A principal problem with G&D is that almost everyone in finance talks about G&D but very few seem to have actually read G&D. This letter is based essentially on the 1962 edition, *Security Analysis Principles and Technique* by Graham, Dodd and Cottle; and the 1971 edition of *The Intelligent Investor* by Graham.

Because so many have such a superficial understanding of G&D, their names have become synonymous with the term "value investing". This, in turn, has led to some confusion about what it is that value investors do, particularly, the way that value investing in equities is practiced at Third Avenue Management. Though we are influenced by G&D, our methods, developed over the life of the firm, are basically different.

Value Investing is one area of fundamental finance ("FF"). It involves investments in marketable securities by non-control outside passive minority investors ("OPMIs"). The other areas of Fundamental Finance involve the following:

- Distress Investing
- Control Investing
- Credit Analysis
- First and Second Stage Venture Capital Investments

Modern Capital Theory ("MCT"), like Value Investing, focuses on investments by OPMIs. Unlike Value Investors, MCT focuses strictly on near-term changes in market prices. In a number of special cases the factors important in MCT are also important in Value Investing. MCT is discussed briefly at the end of this paper.

G&D made three great contributions to Value Investing:

1) G&D distinguished between market price and intrinsic value (a concept that still seems alien to MCT).
2) G&D pioneered the concept of investing with a margin of safety.
3) G&D promulgated the belief that investment decisions ought to be based on ascertainable facts. (This was before the modern era – say after 1964, when for OPMIs the amount of factual material

exploded and the reliability of factual materials became much enhanced).

The equity analysts at Third Avenue Management tend to follow the basic rule promulgated by G&D: acquire at attractive prices the common stocks issued by primary companies in their industries.

Both G&D and MCT focus on the investment process from the points of view of the OPMI. Little, or no, attention is paid to other points of view; and the particular factors needed to understand the dynamics driving individual companies, particular industries, control persons and putative control persons, as well as creditors. This emphasis on the OPMI is in sharp contrast to other areas of FF – control investing, distress investing and first and second stage Venture Capital. Here, the analysis does not focus on OPMI needs and decisions, but is rather a four-legged stool:

(1) Understanding the OPMI's needs and desires.

(2) Understanding the company in some depth.

(3) Understanding the needs and desires of control persons and entities, present and future.

(4) Understanding the needs and desires of creditors.

"Analysts at Third Avenue Management think like owners, like private acquirers or like creditors, emphasizing elements of fundamental finance that differentiate Third Avenue from Graham and Dodd."

Open-end funds, *i.e.*, mutual funds (Investment Companies operating under the Investment Company Act of 1940 as amended), are required to operate mostly as OPMIs. Third Avenue, in the management of various portfolios is basically, but not wholly, an OPMI. But Third Avenue's analytic techniques, unlike G&D's, are the same as control investors, distress investors and creditors. The emphasis is on understanding in-depth, from the bottom up, the company and the securities it issues; and also the character and motivations of managements, other control entities, and others senior to the common stock, ranging from secured lending by commercial banks to trade creditors to holders of subordinated debentures to holders of preferred stocks. There is a de-emphasis on top-down factors emphasized by G&D and MCT – general stock market levels, near-term stock price movements, a primacy of the income account, a primacy of dividend income, quality or growth as defined by general recognition of such in the general market.

Many of the best value investors graduate into other areas of financial fundamentalism, especially control investing and distress investing. Names of such "graduates" which come to mind are Warren Buffet, Sam Zell, Carl Icahn, Bill Ackman and David Einhorn.

Analysts at Third Avenue think like owners, like private acquirers or like creditors, emphasizing elements of FF that differentiate Third Avenue from G&D. For example, G&D emphasize the importance of dividends for OPMIs. In contrast, FFs look instead at the corporation optimizing its uses of cash. In general, corporate cash can be dispensed in three areas:

1) Expand assets

2) Reduce liabilities

3) Distribute to equity owners

   (a) via dividends

   (b) via stock buybacks

There are comparative advantages and disadvantages for dividends and buybacks, which are never discussed by G&D, because they only mention the stock buyback alternative as it relates to stock options for management.

There is no discussion by G&D of stock buybacks as a method of enhancing a common stock's market price over the long run, giving the management the flexibility to retain cash in troubled times, and also increasing the percentage ownership interest of each non-selling stockholder.

From a corporate point of view, distributing cash to shareholders has to be a residual use of cash, compared to expanding assets or reducing liabilities most of the time. Probably the most important exception to this exists where the payments of common stock dividends in cash gives a corporation better long-term access to capital markets than would otherwise exist. This seems to be the case for companies which, by the nature of their operations, consume cash in order to create wealth and are required to raise outside equity capital periodically, *e.g.*, integrated electric utilities and certain financial companies.

G&D in their analysis of common stocks emphasize the following factors:

1) Primacy of the income account – forecast future earnings relying heavily on the past earnings record;
2) Dividend distributions;
3) The general level of securities markets;
4) Outlook for the economy;
5) Industry identifications;
6) General market opinion as to the quality and/or growth prospects of an issuer.

In a G&D primacy of the income account approach (or any other primacy of the income account approach) managements are appraised almost solely as operators. For FF, managements are appraised using a three pronged approach:

1) Management as operators;
2) Management as investors;
3) Management as financiers;

In appraising managements as financiers, the emphasis is on a primacy of credit-worthiness for either the company or for various securities in the capital structure.

G&D agree that the securities of secondary companies and workout situations can be attractive for Enterprising OPMIs, whom they distinguish from Defensive OPMIs. However, very little is really voiced by G&D as to how secondary situations and workout situations ought to be analyzed, compared with their views on how to analyze the securities of primary companies, other than to state that secondary common stocks should not be acquired except at prices of two-thirds or less of underlying value.

G&D believe it is important to guard against market risk, *i.e.*, fluctuations in security prices. Thus, it becomes important in their analysis to have views about general stock market levels. FF practitioners guard only against investment risk, *i.e.*, the problems of companies and/or the securities they issue. In FF analysis, market risk is mostly ignored except when dealing with "sudden death" securities – derivatives and risk arbitrage securities; when dealing with portfolios financed by heavy borrowing; and when companies have to access capital markets, especially equity markets.

In the analysis of performing credits acquired at or near par, emphasis by G&D is on quantitative data relevant to overall interest coverage, rather than any emphasis on covenants and/or collateral. FF emphasizes covenants and collateral in credit analysis. No matter how favorable the quantitative data, *e.g.*, coverage and debt ratios, FF practitioners examining most corporate credits assume that the quantitative facts are likely to deteriorate over the long-term life (say a five to 15-year life) of a debt instrument. Such an assumption creates a margin of safety for a creditor.

In valuing assets, G&D seem to rely strictly on a classified balance sheet produced according to Generally Accepted Accounting Principles ("GAAP"). Thus, inventory is viewed as a current asset and real property as a fixed asset. In FF, the analysis tends to get different results. In the case of a retail chain which is a going-concern, inventories

usually are a fixed asset of the worst sort – subject to markdowns, shrinkage, obsolescence, misplacement. On the other hand Class A, fully-leased income-producing office buildings tend to be current assets, probably an area where price agreement can be reached via one phone call.

For FF, GAAP in the U.S. is an essential disclosure tool, the best objective benchmark available to the OPMI analyst in the vast majority of cases. However, GAAP and related accounting measures, unadjusted by the analyst, are almost always misleading, in one context or another.

G&D stress the importance of adjusting GAAP to determine "true earnings" for a period. In FF, the analyst always adjusts GAAP, not only to determine earnings from operations, but also to determine credit worthiness and asset values.

GAAP recognizes three classifications on the right hand side of the balance sheet: liabilities; redeemable preferred stock; and net worth. In economic fact, there are many liabilities that have an equity component. It is up to the analyst to decide what percentages of certain liabilities are close to equivalent to payables and what percentage are close to equivalent to net worth. Take the liability account, deferred income taxes payable, in a going concern. If the cash saved from deferring income taxes are invested in depreciable assets, the tax may never become payable. However, the deferred tax payable account can never be worth as much as tax paid retained earnings (part of net worth) because the tax may someday become payable, especially if the company engages in resource conversion activity, such as being acquired in a change of control transaction. So, maybe there is as much as a 90% equity value in the deferred income tax accounts payable. On the other hand, deferred income taxes payable can never be as much of a liability as current accounts payable or interest bearing debt. Maybe, at the maximum, there is a 5% to 10% equity in the deferred tax payable account. GAAP is based on a rigid set of rules; it is no longer principles based. The appraisal of an account, such as deferred income taxes payable, is in the province of the users of financial statements, not the preparers of financial statements.

For G&D values for stockholders are created by earnings which are then valued in the market by a price earnings ratio (or capitalization rate) and/or dividends, which are valued by the market on a current yield basis.

In FF, stockholder values flow out of creating corporate values. There are four different ways corporate values are created:

1) Cash flows available to security holders. This is probably created by corporations fewer times than most people think.
2) Earnings, with earnings defined as creating wealth while consuming cash. This is what most well-run corporations do and also most governments do. Earnings cannot have a lasting value unless the entity remains creditworthy. Also, in most cases, in order to maintain and grow earnings the corporation or government is going to have to have access to capital markets to meet cash shortfalls.
3) Resource Conversion. These areas include massive asset redeployments, massive liability redeployments and changes in control. Resource conversion occurs as part of mergers and acquisitions, contests for control, the bulk sale or purchase of assets or businesses, Chapter 11 reorganizations, out of court reorganizations, spin-offs, and going privates including leveraged buy outs ("LBOs") and management buy outs ("MBOs").
4) Super attractive access to capital markets. On the equity side, this includes initial public offerings ("IPOs") during periods such as the dotcom bubble. On the credit side, this includes the availability of long-term, fixed rate, and non-recourse financing for income producing commercial real estate.

G&D do not distinguish between cash return investing and total return investing. In cash return investing, returns are measured by current yield (or dividend return), yield to maturity, yield to worst or yield to an event. In total return investing, returns are measured in price paid relative to

cash returns plus (or minus) capital appreciation (or depreciation) in given periods of time. Many portfolios have to be invested only for cash return into high-grade credits, *e.g.*, bank securities portfolios; insurance company portfolios, at least as to the amount of liabilities; certain pension plans. (In the current low interest environment, it seems almost impossible to be a rational cash return investor.) For G&D, the higher the dividend, the higher price at which a common stock would sell. G&D imply that the higher dividend issue should be acquired. G&D ignore that the lower priced security may be more attractive to the total return investor because of the lower price and the larger amount of retained earnings.

Two facts stand out in comparing dividend income in the U.S. with interest income:

- Dividends are generally tax-advantaged in the U.S., with individuals currently subject to a maximum federal tax rate of 15% on qualified dividends; and corporate taxpayers are generally entitled to a 70% exemption from income tax on dividends from domestic companies.
- In the U.S., as a practical matter, no one can take away a creditor's right to a contracted interest payment (or other cash payment) unless that individual so consents or a court of competent jurisdiction, usually a bankruptcy court, suspends that payment.

Most OPMIs involved with common stock believe in substantively consolidating the company with its common stock owners. They believe they are buying General Electric ("GE"), not GE common stock. In FF, the company is a stand alone, separate and distinct from its shareholders, its management, its control group and its creditors. Essential for understanding the dynamics of many companies are not only consolidated financial statements but, also, how financial statements are consolidated. In many cases, it is important to know which liabilities of particular parents or subsidiaries are assumed or guaranteed by other companies which are part of a consolidation.

There are crucial differences between the analysis of companies as going concerns and the analysis of companies as investment vehicles. Most companies have both going concern characteristics and investment company characteristics. For both going concerns and investment vehicles, credit-worthiness is paramount for the company and its securities holders (except perhaps for adequately secured creditors). In going concern analysis, great weight is given to flows: whether cash or earnings. In investment vehicle analysis, great weight is given to asset values, especially realizable asset values. G&D emphasize going concerns except for a short description of Net-Nets, which focuses only on classified balance sheets and never mentions credit-worthiness or prospects for resource conversion, especially changes of control or going private.

The importance of market price depends primarily on two factors:

(1) The form of investments in the portfolio.

(2) How the portfolio is financed.

Generally, market prices are much less important if a portfolio consists of performing loans. Indeed, in some portfolios, *e.g.*, high-grade municipal bonds held by individuals, almost no attention is paid to market prices. Market prices are almost always important in evaluating common stocks, except in instances where the common stocks are being accumulated with the idea of obtaining control or elements of control. Market prices are almost always of critical importance where the portfolio is financed by margin borrowings where the collateral for the borrowing are the securities that make up the portfolio.

Analysts really ought not to use the word "risk" without putting an adjective in front of it. G&D really do not distinguish often enough between market risk and investment risk, even though they recognize in measuring market risk that "Mr. Market" tends to be utterly irrational some of the time. Market risk refers to short-term fluctuations in securities prices. Investment risk refers to

something going wrong with the company issuing securities or with the securities (*e.g.*, dilution).

Sometimes analysis takes funny turns. In a poorly financed company, would one prefer to have had the company issue subordinated debentures or a preferred stock which is, of course, subordinated to the debentures? If there is a failure to pay interest or principal on a subordinated debenture, the one remedy available to the subordinated creditor is to declare an event of default. Then, either the indenture trustee, or usually 25% of the subordinated creditors, can accelerate the debt, declaring it due and payable. For a subordinate class, the right to accelerate most often is the right to commit suicide, because this action would likely result in a reorganization or liquidation where almost all, or all, the value will go to senior creditors. In contrast to an event of default, the preferred shareholder accumulates dividend arrearages. The company has less need to reorganize or liquidate. If an investor is making a capital infusion into a troubled company, the investor frequently is much better off from a safety point of view by having the issuer issue a preferred stock, rather than a subordinate.

G&D seem utterly silent about the compensation of promoters, which has to be understood if one is to understand Wall Street and/or corporate managements. Economists have it wrong when they say, "There is no free lunch". What they should say is, "Somebody has to pay for lunch". Those who most commonly pay are OPMIs.

In writing of growth stocks, G&D seem to define growth as that which is generally recognized in the marketplace as growth. Many growth stocks do not have general recognition and so they sell at very modest prices. Current examples include Applied Materials, Brookfield Asset Management, Cheung Kong Holdings, Hang Lung Group and Wheelock & Co.

While ignored by G&D, I am of the strong opinion that common stock prices never have to be rational in the absence of catalysts that are the bedrock of resource conversion. The most important catalyst seems to be changes of control and/or potential changes of control. In a conservative, non-control, FF investment, the common stocks contained in many TAM portfolios are those of blue-chip companies selling at substantial discounts from readily ascertainable net asset values ("NAV"). The exit strategies are based on the belief that NAVs will grow over the next three to seven years and that the discounts from NAV will not widen materially. Without catalysts, though, it appears as if the discounts from NAV are just a random walk at any particular time.

Where there are no prospects for changes of control or no Wall Street sponsorship (induced by generous compensation arrangements for managers and securities sales persons), prices in OPMI markets can be utterly irrational persistently. The very best companies whose common stocks are publicly traded and where no catalyst exists usually sell at discounts to NAV. Sometimes these discounts from NAV reach 50% or greater.

Many of these companies are extremely well financed and have most impressive long-term records of increasing NAVs and earnings per share persistently. Such companies include Brookfield Asset Management, Capital Southwest, Investor AB, and Cheung Kong Holdings. In contrast, there is a huge market for private equity that OPMIs spend billions of dollars to get into and which are priced at substantial premiums above NAV. These are the hedge funds. Typically their premiums above NAV are reflected in the present value of promotes paid to hedge fund managers. Those promotes normally run to 2% of assets under management plus 20% of annual profits after the OPMIs receive a preferred return of, say, 6%. Further, lengthy lock-up periods tend to exist for OPMIs owning hedge funds, while the publicly-traded common stocks cited above are all marketable. From a value point of view, there does not seem to be any rational reason why the publicly-traded issues mentioned above should sell at steep discounts, while the hedge funds are priced at premiums.

In FF, potential resource conversions, catalysts, and access to capital markets are included in the valuation process. FF puts a great premium on the value of control, something

ignored by G&D. Asset values are very important insofar as they are readily ascertainable and exist in well-financed companies. Asset values are of limited importance in companies which are not well financed and where the principal assets are single purpose assets useful only to a going concern. These asset values can have a positive or negative effect on underlying value. They can help predict that future earnings will be high based on an ROE analysis (book value equals E) or they can indicate, and often do, very high overhead and very high fixed costs.

I largely disagree with G&D as to when low pricing creates a margin of safety. For G&D the margin of safety is created mostly by depressed prices in the general market. For FF, the margin of safety is derived largely from micro factors affecting a company and its securities, not general stock market levels. G&D seem to have a valid point in terms of guarding against market risk. FF is involved with investment risk, not market risk.

Diversification, quite properly, is key in a G&D analysis. It is an OPMI analysis which relies heavily on predicting future earnings and future dividends, something extremely hard to do well. In FF there is much less need for diversification which is viewed in FF as only a surrogate, and usually a damn poor surrogate, for knowledge, control and price consciousness. Non-control investors need a modicum of diversification, but nowhere near to the degree emphasized by G&D, MCT and academics in general.

G&D is mostly a tool for top-down analysis; while FF, in contrast, is almost completely bottom up. G&D describe how to forecast for a coming five to ten-year period:

- Formulate a view as to the general economic climate;
- Anticipate future earnings from the Dow Jones Index and the S&P 500;
- Forecast earnings for individual companies.

In FF, the essential analysis is of the individual company and the current price of the security versus its estimated intrinsic value. Instead of just forecasting earnings, in FF, prognostications are made about:

- Operations;
- Potential resource conversions;
- Access to capital markets.

There are always trade-offs in FF investing. For example, a strong financial position in 2011 means one is dealing with a management willing to sacrifice returns on equity, for the safety and opportunism inherent in a strong financial position. Also, and this is a possibility that G&D do not consider, there are incentives for certain control people to prefer low prices for publicly-traded common stocks:

1) Those doing estate planning;
2) Those contemplating taking the company private, including LBOs; Going private entails cashing out public shareholders. To go private two conditions have to be fulfilled:
    a) Low, to reasonable, price;
    b) Strong finances – usually by the company itself, or it could be by the buyer or both;
3) Control person is insulated from changes in control.

MCT, like G&D, is focused on looking at economic and financial phenomena from the point of view of OPMIs. Unlike G&D, the entire focus of MCT is on near-term changes in market prices. MCT operates on the false assumption that markets are efficient for all participants. Unlike one of G&D's great conceptual teachings, MCT does not distinguish between market price and intrinsic value.

When it comes to corporate finance, MCT offers a valuable approach to project finance, but contributes little to corporate finance as visualized by FF participants. The concept of net present value ("NPV") is essential for understanding project finance. For a project to make sense, estimates of the NPV of cash outflows has to exceed the NPV of cash inputs. In terms of corporate finance, there can be

other reasons for undertaking (or not undertaking) a project than positive (or negative) net cash generation. In terms of capitalization, most MCT believers sign off on the Modigliani-Miller Theorem that if a management is working in the best interest of shareholders, the capitalization is a matter of indifference. The Modigliani-Miller Theorem is an absolute non-starter in FF. One can't measure credit-worthiness without also appraising capitalizations.

In FF, quarterly earnings reports tend to lack significance. However, there are instances where quarterly earnings reports can be important. This tends to be the case for most poorly financed companies, which need virtually continual access to capital markets. FF and MCT tend to coalesce when dealing in "sudden death" securities or absolutely credit worthy debt obligations. Such securities seem a special case and encompass the following:

1) Credit instruments without credit risk;

2) Derivatives;

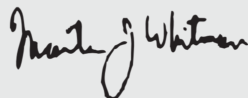
3) Risk arbitrage, with risk arbitrage defined as situations where there is likely to be a relatively determinant workout in a relatively determinant period of time.

In much of what MCT and G&D do, the goal is to estimate the probable effect of certain items on near-term market prices in OPMI markets. Thus, G&D emphasize the importance of determining "true" earnings for a period. In contrast, for FF, the possible or probable effect on OPMI market prices is pretty much ignored in most, but not all, cases. Rather, the goal in FF is to understand the underlying values of a business as well as the business' dynamics. Such understanding requires a study not only of flows – whether cash or earnings – but also, resource conversion possibilities, access to capital markets and the quality and motivations of management and control persons.

As practiced at Third Avenue, Value Investing is a component of Fundamental Finance that stresses intellectual rigor and a long time horizon. The contributions of Graham and Dodd to this approach have been valuable, but they are only part of the story.

I will write to you again when the 2012 First Quarter Report is published. Best wishes for a happy and healthy New Year.

Sincerely yours,



Martin J. Whitman
Founder, Third Avenue Management

Third Avenue Value Fund
(Unaudited)

IAN LAPEY
CO-PORTFOLIO MANAGER OF THIRD AVENUE VALUE FUND

MICHAEL LEHMANN
CO-PORTFOLIO MANAGER OF THIRD AVENUE VALUE FUND

MANAGER ADDED TO THE THIRD AVENUE VALUE FUND UCITS

We are pleased to announce the appointment of Michael Lehmann as co-manager of the Fund, working with Fund Managers Ian Lapey, and Martin J. Whitman.

Mr. Lehmann is a senior member of Third Avenue's Value Team and has long worked closely with both Mr. Lapey and Mr. Whitman. Mr. Lehmann helped to introduce and develop Third Avenue's Value Equity Separate Accounts when he joined the firm in 1998. He manages concentrated portfolios made up of the highest conviction stocks from Third Avenue's value equity, small cap, real estate and international strategies.

Previously, Mr. Lehmann analyzed small-cap stocks and special situations for Robert M. Cohen & Co. a proprietary trading firm that also ran separate account and hedge fund portfolios.

As Vice President of Gabelli Funds, Mr. Lehmann managed separate accounts while also producing due diligence research on special situations for the entire fund group. He worked closely with Mario Gabelli on institutional separate accounts.

Mr. Lehmann attended Fordham University where he graduated with a B.S. in Finance.

Dear Fellow Shareholders:

We are pleased to present you with the fourth quarter 2011 commentary for the Third Avenue Value Fund UCITS ("The Fund"). The Fund seeks to achieve long-term capital appreciation with limited investment risk by investing opportunistically, without constraints on geography, market capitalization or industry. A list of portfolio changes follows with thoughts on a few securities of note.

QUARTERLY ACTIVITY

New Position

Hutchison Whampoa Ltd.

Positions Increased

Applied Materials

Bank of New York Mellon

Capital Southwest

Cavco Industries

Chong Hing Bank

Encana Corp.

Forest City Enterprises

Hang Lung Properties

Key Corp.

Lai Sun Garment

RHJ International

Tellabs

Wheelock & Co.

Positions Decreased

Cheung Kong Holdings

Hang Lung Group

Henderson Land Development

Investor AB

Toyota Industries

Wharf Holdings

During the quarter, the Fund initiated a position in Hutchison Common and added to our positions in Applied Materials and Tellabs, as pricing opportunities arose. Hutchison Whampoa is a Hong Kong-based conglomerate with ports, telecommunications, retail, infrastructure, real estate and energy operations primarily in Asia and Europe. The company has a strong financial position, and the shares were purchased at a significant discount compared to our estimate of net asset value. Tellabs and Applied Materials are both extremely well-financed high-tech companies, and their common stocks were purchased at significant discounts compared to our estimates of net asset value. Sales made during the quarter were driven primarily by portfolio considerations.

DISCUSSION OF 2011 PERFORMANCE

We have received numerous inquiries from our fellow shareholders regarding the Fund's disappointing 2011 performance. As the table below shows, there has been a massive divergence between the business performance and the stock performance of the companies in whose common stocks the Fund is invested. This has been most notable among our Hong Kong-based Real Estate and Holding Companies. 2011 would seem like a terrible year, if measured only by the common stock performance of these companies. However, the underlying businesses have actually performed very well. Specifically, despite headwinds from government measures to curb residential housing prices in both Hong Kong and China, our companies have generated property development operating margins ranging from 25.9% to 56.5%. Although we expect margin compression going forward, this business should remain profitable, owing to healthy underlying demand for residential properties in Hong Kong and tier-two cities in China and low land costs for our companies. Leasing income growth for the first half of 2011 ranged from 11.7% to 22.6% driven by healthy commercial real estate fundamentals, particularly for Hong Kong shopping centers (retail sales in Hong Kong are up 25% year to date), and good progress in leasing newly developed properties. Our companies continue to have very strong financial positions; yet, their common stocks trade at significant discounts to reported net asset value, with the exception of Hang Lung Group. This is due to the fact that Hang Lung's large inventory of Hong Kong residential properties is carried at cost on the balance sheet as opposed to fair value, which is significantly higher.

The widening of discounts and weak 2011 stock performance does not appear to be attributable to a deterioration in long-term business fundamentals for these companies. Although the 2012 earnings outlook has been negatively impacted by the government measures mentioned above and a potential global slowdown, We expect the companies to remain profitable. Furthermore, the companies' strong financial positions should enable them to take advantage of opportunities created by softening macroeconomic conditions. Recently, Hang Lung Properties did just this, purchasing land in China (Kunming) for the first time since 2009.

The Fund's continued concentration in these common stocks is a reflection of the tremendous value that we see in these issues. Although the recent market turmoil has presented other attractive opportunities, the massive divergence between business and stock performance for these stocks has driven our decision to maintain a high level of concentration.

Third Avenue Value Fund (continued)
(Unaudited)

Third Avenue Value Fund
Hong Kong Real Estate and Holding Companies

	2011 Stock Performance	Common Stock Price	NAV[1]	Discount/ (Premium)	1H 2011 Property Development Margin	1H 2011 Leasing Income Growth	Net Debt to Capital	Insider Ownership
Cheung Kong Holdings	-18%	$97.80	$128.35	24%	26.8%	12.8%	3.5%	43%
Hang Lung Group[2]	-7%	$47.70	$ 43.72	-9%	NM	11.7%	NM	37%
Henderson Land Development	-19%	$43.05	$ 75.15	43%	25.9%	22.6%	16.3%	61%
Wharf Holdings[3]	-28%	$42.00	$ 61.59	32%	42%	14%	15.2%	31%
Wheelock[3]	-27%	$23.10	$ 54.57	58%	56.5%	13.3%	6.3%	59%

Note: Prices as of 31 October 2011. All figures in Hong Kong dollars.
[1] Reported Net Asset Value as of 30/6/11.
[2] Leasing growth based on the 12 months ended 30/6/11 (30 June fiscal year end).
[3] Excludes Wharf's net debt (non-recourse to Wheelock) and Wheelock Properties' net cash.
NM: Not Meaningful
Source: Company reports, Bloomberg.

One problem with our investments in the common stocks of Hong Kong real estate and holding companies is that they lack visible catalysts. For example, the companies do not appear to be takeover candidates because of very large insider ownership (37% to 61% for our largest holdings). Furthermore, Hong Kong Stock Exchange rules prohibit cash-out mergers unless 90% of the non-participating shareholders vote in favor of the transaction ("the 90% rule"). Marty Whitman, a co-manager of the Fund, recently sent a letter to the Hong Kong Exchange proposing that the existing 90% rule be replaced by "the 50% rule." This would permit cash-out mergers upon an affirmative vote of at least 50% of non-participating shareholders provided that the price offered was at least 40% above the average closing price for the 20 trading days prior to the announcement. While this letter is not likely to be acted upon, it demonstrates that Third Avenue Management will not sit idly by when its investments are underperforming.

While we can't predict the market, we do believe that our focus on fundamentals will be rewarding in the long term, as the common stock prices better reflect intrinsic values as they have in the past. We have seen this happen many times over our combined roughly 90 years in the market. Despite the broad widening of discounts in 2011, the Fund has a profit in its portfolio of Hong Kong Real Estate and Holding Companies, as of October 31st.

STOCK MARKET WEAKNESS CREATES BUYING OPPORTUNITY FOR LONG-TERM INVESTORS

The market weakness in 2011 appears to have created a great buying opportunity for investors focused on long-term capital appreciation. Most notably, the Chairmen and Chief Executive Officers of most of our Hong Kong holdings have been increasing personal holdings:

- Lee Shau Kee, Chairman and CEO of Henderson Land Development Co., has spent more than US$1.7 billion purchasing Henderson common stock at an average price of about HK$55.50 (versus the HK$43.05 price as of October 31).
- Li Ka-Shing, Chairman and CEO of Cheung Kong Holdings Ltd., has purchased 5.9 million shares of Cheung Kong common at an average price of about HK$103 for about US$79 million.
- Peter Woo, Chairman and CEO of Wheelock & Co., purchased 2.4 million shares of Wheelock Common at an average price of about HK$23.50 for US$7.3 million.

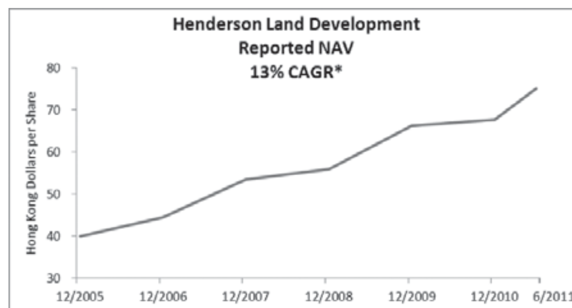
Likewise, during 2011, we have continued to aggressively purchase Fund shares to increase our holdings in The Third Avenue Value Fund, the American forebearer of the UCITS fund. These shares are fully vested and were purchased with cash at market value (net asset value) at the time of purchase.

REVIEW OF TOP HOLDINGS

In last quarter's letter, we noted that we would review the Fund's top holdings[1] in this quarter's letter. Below is a summary of the largest holdings in the Fund.

HENDERSON COMMON

Henderson is a Hong Kong-based real estate and holding company. The company owns and develops commercial and residential real estate properties primarily in Hong Kong and also in mainland China. The company also owns a 40% stake in Hong Kong and China Gas, a publicly traded (3 HK) gas distributor in Hong Kong with a growing presence in China through its 64% stake in publicly-traded Towngas China (1083 HK). Henderson's stake in Hong Kong and China Gas, which accounted for about 55% of its market cap, as of 31 October 2011, provides a strong source of dividend income (about HK$1 billion a year). As the chart below indicates, Henderson's recent business performance has been impressive, as reported NAV has increased at a 13% Compound Annual Growth Rate ("CAGR") since 2005. In 2011, the company has benefitted from strong leasing performance at newly developed commercial properties in Hong Kong, Beijing and Shanghai. The company has maintained a strong financial position with a net debt to capital ratio of only 16%, as of 30 June 2011. As of this writing, the shares currently trade at a 43% discount to reported NAV of HK$75.15 per share.



* Including dividends.

CHEUNG KONG COMMON

Cheung Kong is a Hong Kong-based holding company primarily engaged in real estate development in Hong Kong and China. The company also owns 50% of Hutchison Whampoa Common. Cheung Kong's reported NAV has compounded at an 11% CAGR since 2005, the lowest growth rate among our major Hong Kong holdings primarily due to disappointing results from Hutchison Whampoa's telecommunications business in Europe. However, this business has recently turned profitable, and Cheung Kong is very well positioned to generate strong NAV growth going forward, with a very strong financial position (3.5% net debt to capital ratio).

The company has historically been a savvy buyer and seller of assets, as most recently demonstrated by its 2011 sales of stakes in its ports and China commercial real estate operations at attractive prices that resulted in large gains. As of this writing, Cheung Kong common trades at a 24% discount to reported NAV as of 30 June 2011. Hutchison Whampoa recently disclosed that recurring EBITDA increased 37% for the first nine months of 2011 compared to a year ago driven by growth across all of its businesses (Infrastructure +67%, Energy +75%, Property +24%, Retail +16%, Telecommunications +39%, Ports +9%).

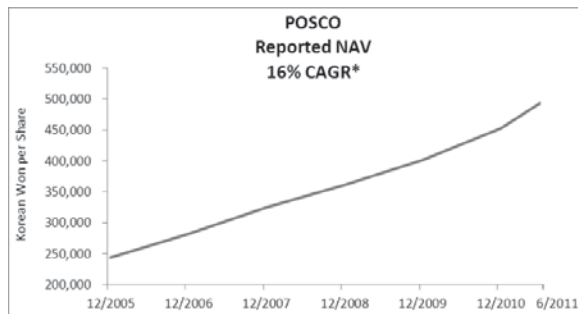
[1] Holdings and weightings may change without notice.

*Including dividends.

POSCO COMMON

Posco is a Korea-based holding company primarily engaged in steel production. In recent years, the company has been expanding its steel operations both in Korea and globally (Indonesia, India, Vietnam) and also investing in raw materials (iron ore and coal). Additionally, through the purchase of a 68% stake in Daewoo International, a publicly-listed (047050 KS) Korean trading and investment company, in September 2010, Posco enhanced its steel export business and acquired several other assets, such as natural gas reserves in Myanmar and a 24% stake in Kyobo Life Insurance. These other assets could be monetized in the future. Posco's reported book value has grown at an impressive 16% annual rate since 2005.

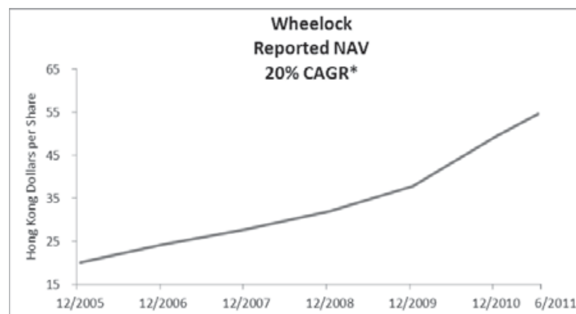
Despite weakening global demand for steel and elevated raw materials costs, Posco reported healthy third quarter results with 10.9% operating margin for its steel business. The company continues to have a very strong financial position and should remain profitable, even if industry conditions continue to deteriorate, as it is a low cost producer. A weak near-term earnings outlook appears to be more than priced into the common stock, which trades at about nine times earnings and a 20% discount to reported book value.



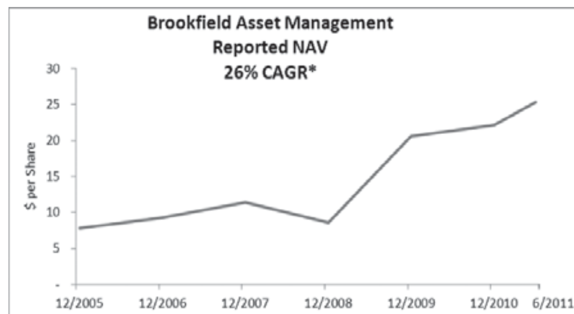
* Including dividends.

WHEELOCK COMMON

Wheelock is a Hong Kong-based holding company. The company has a 50% stake in Wharf Holdings Ltd., a Hong Kong-based holding company with interests in commercial and residential real estate, ports and communications, whose common stock is also held by the Fund. Wheelock also has a 75.8% stake in Wheelock Properties Singapore (WP SP), a publicly-listed developer of luxury real estate in Singapore. Through its Wharf stake, the company controls the Harbor City and Times Square shopping centers in Hong Kong. These two properties, which accounted for 8.3% of all retail sales in Hong Kong during the first half of 2011, generated leasing income growth of 13% and 11%, respectively, in the first half of 2011 owing to robust retail sales in Hong Kong. The company's property development business has also performed well as evidenced by 53% growth in operating profit and a 56.5% operating margin in the first half of 2011. Wheelock's financial position remains very strong, with only a 6.3% net debt to capital ratio as of June 30, 2011. Despite this strong current and historical (20% annual growth in NAV since 2005) business performance, Wheelock common is down 27% year to date and trades at a 58% discount to reported NAV.



* Including dividends.



* Including dividends. 2005-2008 NAV is based on GAAP. 2009-2011 NAV is based on IFRS.

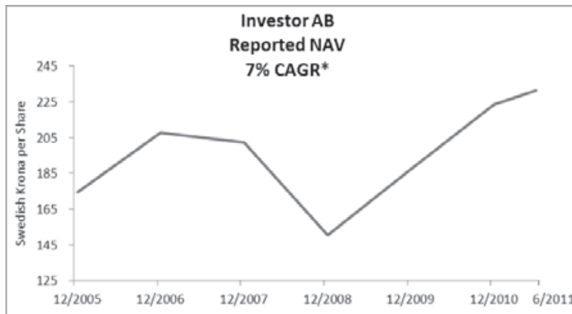
BROOKFIELD ASSET MANAGEMENT COMMON

Brookfield is a Toronto-based asset manager focused primarily on commercial real estate, hydroelectric power and infrastructure. The company invests its own capital alongside its clients' and its impressive track record has enabled it to raise new capital in a difficult market over the last few years. Each business generates recurring cash flows that can both service reasonable debt levels and allow management to opportunistically invest in new opportunities.

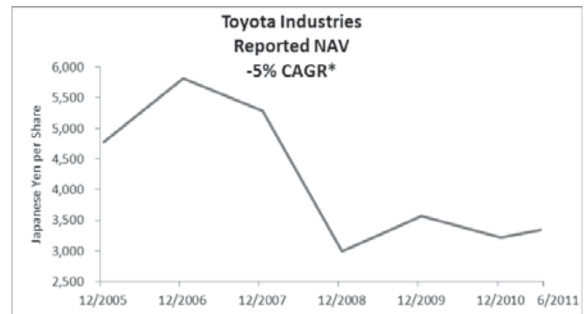
During the financial crises in 2008-2009, Brookfield was able to avoid issuing dilutive equity owing to its strong financial position. The company also made transformative investments in General Growth Properties (a U.S. shopping mall REIT) and Babcock and Brown Infrastructure (an Australian energy and logistics company). Both investments utilized Brookfield's distress investing capabilities to recapitalize companies with valuable assets but over-leveraged balance sheets. As of this writing, Brookfield common trades at a 24% discount to reported intrinsic value, which includes the estimated value of the company's off balance sheet assets under management.

INVESTOR AB COMMON

Investor AB is a Swedish investment company that is primarily invested in the publicly-traded common stocks of large European companies such as Atlas Copco (industrial production equipment), AstraZeneca (pharmaceuticals), SEB (banking), ABB (power and automation technologies) and Ericsson (communications equipment). The company also invests in private equity. Investor AB has minimal direct exposure to PIIGS nations (Portugal, Italy, Ireland, Greece and Spain), as most of its investments are focused on northern Europe. Investor AB has a respectable long-term track record, having generated 7% annual growth in NAV since 2005, despite the turbulent financial markets. During the most recent quarter, the company took advantage of its strong financial position and added to several of its holdings, including Nasdaq OMX, Aleris, Electrolux and ABB. As of this writing, the shares currently trade at a 34% discount to reported NAV of 189 Swedish Krona per share as of 30 September 2011.



* Including dividends.



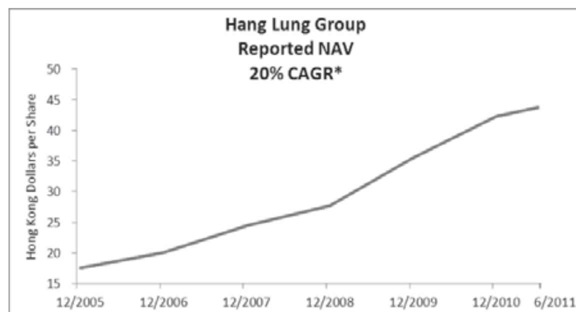
* Including dividends.

TOYOTA INDUSTRIES COMMON

Toyota Industries ("Industries') is a diversified manufacturing company that produces automobiles, engines, air conditioning compressors, materials handling equipment (*e.g.*, forklifts), textile machinery and logistics related equipment. The company also has a portfolio of Japanese common stocks, the largest position in which is a 6.8% ownership stake in Toyota Motor. The decline in Industries' NAV since 2005 has been primarily driven by the falling stock price of Toyota Motor common, which accounts for approximately 50% of its estimated NAV. Toyota Motor's business performance has been disappointing in recent years owing to operating losses during the global recession in 2008-2009 and recent market share losses driven first by recall issues and more recently by production disruptions from the earthquake in Japan and floods in Thailand. As we have written in previous letters, we do not believe that these issues have resulted in a permanent impairment to Industries common. Nevertheless, we have reduced our holding by nearly two-thirds, as our other core holdings appear to have more attractive growth prospects and common stock appreciation potential. Industries remains extremely well financed and its shares trade at about a 40% discount from our estimate of NAV.

HANG LUNG GROUP COMMON

Hang Lung Group is a Hong Kong-based holding company. Its primary investment is a 50% stake in Hang Lung Properties ("Properties"), whose common stock is also held by the Fund. Properties is engaged in real estate development and ownership in Hong Kong and China. The company is trying to replicate its tremendous success in Shanghai with its Plaza 66 and Grand Gateway shopping centers in major second tier cities in China (Shenyang, Jinan, Wuxi, Tianjin, Dalian). The initial results of this expansion have been encouraging as the Shenyang and Jinan shopping centers are fully leased despite a competitive leasing environment and rising construction costs. Properties also owns residential properties in Hong Kong (the HarbourSide and Long Beach condominium projects) that were developed on low-cost land purchased many years ago. These properties are being opportunistically sold to fund the company's commercial expansion in mainland China. The company has a very strong financial position with a net cash position and recently utilized this financial flexibility to purchase land in China (Kunming) for the first time since 2009. The company's impressive 20% annual growth in NAV since 2005 has been generated with virtually no leverage and is a tribute to Chairman Ronnie Chan's long-term vision and execution.



* Including dividends.

In closing, Fund Management has been very pleased with the underlying business performance as demonstrated by healthy growth in reported NAV per share for each of the holdings, other than Toyota Industries Common. This growth was generated during a period that included the Great Recession and credit crunch of 2008 and 2009. Our companies benefitted by not having to issue dilutive equity during this period. The global economy appears to have entered another period of turbulence in late 2011 driven primarily by sovereign debt issues in Europe. Despite this challenging macro environment, our companies appear likely to continue generating attractive NAV growth over the next three to seven years, particularly if they can use their strong financial positions to make opportunistic investments as they have in the past. With discounts to NAV at historically wide levels, we believe that stock prices should, at a minimum, appreciate along with NAV growth over this period.

Thank you for your continued interest in the Fund. we shall write to you again when we publish our First Quarter Report dated 31 January 2012. Best wishes for a healthy and happy New Year.

Ian Lapey	Michael Lehmann
Co-Portfolio Manager	Co-Portfolio Manager
Third Avenue Value Fund	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:

We are pleased to present you with the fourth quarter 2011 commentary for the Third Avenue Small-Cap Value Fund UCITS ("The Fund"). The Fund seeks to achieve long-term capital appreciation with limited investment risk by investing opportunistically within the small cap market. A list of portfolio changes follows with thoughts on a few securities of note.

QUARTERLY ACTIVITY

New Positions

Aeropostale Inc.

Canfor Corp.

Emcor Group

Haemonetics Corp.

Segro Plc

Semgroup

Sensient Technologies Corp.

Positions Increased

Ackermans & Van Haaren

Alamo Group

Alexander & Baldwin

American Eagle Outfitters

Bel Fuse

Broadridge Financial Solutions

Cimarex Energy

Excel Trust

HCC Insurance Holdings

ICF International

Ingram Micro

Lanxess AG

Leucadia National

Lexmark International

Liberty Media Corp. - Starz

Madison Square Garden Corp.

Mantech International

Minerals Technologies

Oshkosh Corp

Pioneer Drilling

Seacor Holdings

Stepan Co.

Superior Industries

Teleflex

Vail Resorts

Wacker Neuson

Westlake Chemical

Positions Decreased

Alico Inc.

Bristow Group

Cross Country Healthcare

Electro Scientific Industries

Encore Wire Corp.

Investment Technology Group

Jakks Pacific

K-Swiss

MEMC Electronic Materials

National Western Life Insurance

Park Electrochemical

Pharmaceutical Product Development

PH Glatfelter

Synopsys

Tidewater

Viterra

Positions Eliminated

Imation Corp.

Sapporo Holdings

QUARTERLY ACTIVITY

The markets this quarter for small company stocks resembled a ride on a Six Flags rollercoaster. For many investor/speculators seeking near-term gratification, that jolting ride likely induced something akin to Freud's[1] pleasure principle, as equities finished the period on a relatively high note, following a painful spell at the end of the summer. For us at Third Avenue, the heightened market volatility enabled us to patiently and opportunistically convert our idea inventory into seven new investments and add, broadly, to existing positions. Two of the more notable new investments in the portfolio are discussed below. During the quarter the Fund also benefited from bids for three of its portfolio holdings, including a bid for SemGroup, a position just initiated in August and described in more detail below. The bid for toymaker JAKKS Pacific by a large shareholder was rejected by management as inadequate, while the Fund's position in PPD Common, the subject of a leveraged buyout bid, was closed out at a tidy profit subsequent to quarter end.

SemGroup is the successor corporation to a company that filed for reorganization under Chapter 11 in 2008 (as well as CCAA, the Canadian version of Chapter 11), owing to commodity-related trading losses[2]. The reorganized company, which exited bankruptcy in 2009 and listed its stock on the NYSE in November 2010, used the reorganization process to divest under-performing assets and non-core businesses and to appoint a new management team and board of directors. Supported by a strong balance sheet, the company's operations today center on fee-based oil and gas midstream services, including the operation of gathering systems, storage facilities and pipelines located in the Midwest and Rocky Mountain regions of the U.S., Canada and the U.K. The company boasts a number of strategic assets, including, for example: (i) a majority interest in the White Cliffs pipeline, the only pipeline delivering crude oil from Colorado's D-J Basin to the Cushing, Oklahoma interchange, the largest crude oil hub in North America; and (ii) a multi-product storage facility in Milford Haven, Wales that controls 23% of the independent storage in the U.K. and enjoys access to one of the only deep-water ports there.

There seem to be a number of levers by which management can grow and create value for equity holders, such as the Fund. For example, refinancing the company's high cost "exit financing" – a legacy of the bankruptcy – will significantly cut interest expense in future periods. More notably, the company is in the process of adding incremental capital to expand capacity at various facilities that should not only provide attractive returns, but also enhance cash generation and earnings power over time. Relative to the Fund's cost basis it appears that a large gap existed between the values being assigned to SemGroup's assets by the public market and those values afforded to similar sets of assets whose ownership, for example, resides in tax advantaged, publicly-listed Master Limited Partnership ("MLP") structures, suggesting the potential for a significant arbitrage opportunity. SemGroup's

---

[1] Sigmund Freud published his book, *Beyond the Pleasure Principle*, in 1921.

[2] While relatively short in duration, SemGroup LP's bankruptcy mushroomed controversy, as its founder and CEO were alleged to have lost more than $2 billion in hedged trading on oil futures.

management has taken note, recently announcing steps to highlight and monetize the value of a portion of the company's assets, including via:

i) exchanging the company's interest in its natural gas liquids business for as much as $100 million in cash and an equity interest in publicly-listed NGL Energy Partners (completed November 1st); and

ii) the filing for the IPO of the company's SemCrude oil pipeline operations under the name Rose Rock Midstream, L.P.

Following closely on the heels of purchases of SemGroup Common by the Fund, Plains All American Pipeline LP (NYSE: PAA) made a bid for the entire company, at a premium to the Fund's cost, a bid that we and management view as undervaluing the current and future prospects of the company. As of this writing, SemGroup Common continues to trade above Plains' bid.

The Fund's investment in the shares of Segro Plc, another notable addition during the quarter, was identified by our real estate team. Segro is a London-listed real estate investment trust ("REIT") with a portfolio of high quality industrial and, to a lesser degree, office space located in proximity to major business centers and transportation hubs, such as London Heathrow airport. By assets Segro's £5.5 billion portfolio includes the following markets: UK (approximately 70%), Germany (9%), France (8%), Benelux (6%) and Poland (4%). Management has refocused the portfolio in recent years with the timely sale of its U.S. assets near peak levels, in 2007, and with the opportunistic purchase of competitor Brixton near trough levels, in 2009. Led by a new CEO, Segro management would appear to have several tools at its disposal to help close the large gap between net asset value ("NAV") and the current share price, including:

(i) Narrow the focus of the portfolio via dispositions of all, or a part of, the European assets, where the strategy seems muddled and use the proceeds to continue de-leveraging the balance sheet. To date, management has successfully disposed of subscale assets in parts of Europe.

(ii) Use the proceeds from asset sales at capitalization rates below the implied yield on Segro's shares to repurchase its stock at a large discount to NAV, *i.e.*, tantamount to selling assets at one multiple and buying back shares that trade at a much lower multiple.

(iii) Rental growth via improved occupancy (the company's occupancy remains low at 88%, versus peers in the mid-90s, attributable to the trough market acquisition of Brixton).

(iv) Alternatively, Segro's presence in key logistics corridors and large share of desirable submarkets where development is restrained would make it an attractive takeover candidate for an institutional/Sovereign Wealth Fund or strategic buyer looking to expand its footprint within a high quality greater London industrial platform.

The Fund purchased Segro Common following a steep price decline that coincided with this summer's widening fears about the European credit crisis and its potential impact on anything and everything industrial. Segro Common was purchased at an implied cap rate (cash flow yield) in excess of 8% and at a discount to NAV in excess of 30%, suggesting healthy downside protection. The shares, with a dividend yield of 6% at current prices, provide an additional element of return while investors wait for the business to develop, though we would not be surprised to see management ultimately cut the dividend to a more reasonable level as a means of re-directing capital towards initiatives (i) or (ii) above.

ITS WILDNESS LIES IN WAIT

> *"The real trouble with this world of ours is not that it is an unreasonable world, nor even that it is a reasonable one. The commonest kind of trouble is that it is nearly reasonable, but not quite. It looks just a little more mathematical and regular than it is; its exactitude is*

obvious, but its inexactitude is hidden; its wildness lies in wait."

How do investors preserve and grow capital in a world where "wildness lies in wait?" I recently spoke with a group of the Fund's investors and tried to clarify the difference between risk and volatility and relayed the above quote from one of my favorite investing books, Peter Bernstein's *Against the Gods*. A dialogue around volatility and "risk" seems particularly germane today, given a series of global macro developments in recent years whose tremors and aftershocks continue to buffet the market value of risk assets.

"Volatility fails as a risk measure, until it is coupled with a consequence. In other words, the risk in a portfolio is that it fails to meet the liabilities or needs of its owner at some point when an essential outlay is needed."

We have to be careful when we speak about risk because there are so many different types of risk in investing. At Third Avenue we insist on putting an adjective before the word "risk" to clarify what we mean, *e.g.*, we have to distinguish between market risk and business risk. If, for example, one were considering an investment in an airline common stock, you might consider such business risks as commodity risk, labor risk, and the competitive environment. These things are quite different from how the stock in question might, or might not, perform.

One thing that is less clear is the attempt by so many to equate risk with volatility. As James Montier of GMO once put it "The idea that the risk of an investment, or indeed, a portfolio of investments can be reduced to a single number is utter madness[3]." Volatility fails as a risk measure, until it is coupled with a consequence. In other words, the risk in a portfolio is that it fails to meet the liabilities or needs of its owner at some point when an essential outlay is needed. For example, if you are a pension fund or endowment trying to meet obligations five to 10 years out, an equity-like allocation seems to make a great deal of sense. On the other hand, if you are a family with a high school junior saving for college, it likely does not make sense to have the college money allocated to equities, given that it will be needed in a year or so. So even volatility, a widely touted measure of risk, falls short in defining risk.

The Third Avenue philosophy focuses heavily on protecting against investment risk, *i.e.*, a permanent loss of capital. It is admittedly less robust in insulating us from the volatility inherent in the market. In fact, I would suggest volatility can be the friend of the long-term investor, insofar as it enables opportunistic entry and exit points in a security.

The question for anyone considering an investment in the Fund given all of this is how is the portfolio positioned today?

To the extent that greater volatility demands a higher risk premium to compensate for a wider range of outcomes, then a great deal of attention ought to be focused on valuation and financial leverage. The figures in the table below suggest that the portfolio remains attractive as to those metrics, not only from a historical perspective, but also relative to the market for small company equities. Layering in the quality considerations of the businesses underlying the holdings and we have many reasons to be optimistic about the future of the Fund.

SMALL-CAP FUND VALUATION v. S&P 600

	FUND Sep 2011	S&P 600 Sep 2011
Price : Book	1.0 x	1.5 x
Price : Sales	0.6 x	0.8 x
Debt : Equity	0.3 x	0.6 x

Note: Figures use portfolio weighted average.

[3] Interview with Miguel Barbosa, SeekingAlpha.com, March 2010.

At 31 October, 19% of the Fund's assets were in cash and U.S. Treasury Bills, painful in the short-term with yields next to zero. But the cash, a by-product of our investment process and several takeovers of portfolio companies, offers the Fund a small cushion against short-term downturns in the market, is one of the few truly "non-correlated" assets and offers a huge element of optionality for future investments. Comforting in a world where "wildness lies in wait."

I look forward to writing you again in the New Year when we publish our First Quarter Report, dated 31 January 2012. May you and your families enjoy a healthy and prosperous New Year. Thank you for your continued support.

Sincerely,

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

Third Avenue Real Estate Value Fund
(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:

We are pleased to present you with the fourth quarter 2011 commentary for the Third Avenue Real Estate Value Fund UCITS ("The Fund"). The Fund seeks to achieve long-term capital appreciation with limited investment risk by investing opportunistically, without constraints on geography of market capitalization. A list of portfolio changes follows with thoughts on a few securities of note.

QUARTERLY ACTIVITY

New Positions

City Developments Ltd.

General Growth Properties

Hang Lung Properties

Segro Plc

K. Hovnanian Bonds

Positions Increased

Brookfield Asset Management

Cheung Kong Holdings

Hammerson Plc

Lowe's

Mirvac Group

Mitsubishi Estate

Sun Hung Kai Properties

Taylor Wimpey

Westfield Group

Positions Decreased

Bellway Plc

Berkeley Group Holdings

Consolidated-Tomoka Land

Derwent London

Dexus Property Group

First Industrial Realty Trust

Forest City Enterprises

Henderson Land

HongKong Land Holdings

Hysan Development

Mitsui Fudosan

Savills Plc

Songbird Estates

Thomas Properties Group

Weyerhaeuser

Positions Eliminated

NTT Urban Development Corp.

Lehman Brothers Holdings Bonds

Daibiru Corp.

DISCUSSION OF SIGNIFICANT QUARTERLY ACTIVITY

During the quarter, the Fund had one of the most active investments periods in recent history, adding several new securities to the portfolio and increasing holdings in many existing securities. Increased market volatility provided Fund Management with unique opportunities to invest the Fund's cash reserves in securities at prices representing substantial discounts to net asset value ("NAV"). New investments included the senior secured notes of a U.S. home builder and the common stocks of a Singapore real estate operating company, a U.S. mall REIT, a Hong Kong real estate operating company and a U.K. REIT. In addition, the Fund purchased call options on the Hang Seng Property Index, while reducing its holding in Henderson Common. The Fund also reduced its holdings in two U.K. home builders (based on price appreciation) and three Japanese real estate operating companies (to reallocate into securities with greater projected returns). The Fund sold its holdings in Lehman Notes (realizing a profit), also to reallocate into other securities.

As noted in previous quarterly letters to shareholders, until recently, the Fund has been cautiously holding cash reserves while waiting for the right opportunity to invest. Towards the end of last quarter (ending 31 July 2011), the Fund's investment activity started to pick up, with new positions established in Lowe's and several Australian REITs. During the first few weeks of August, the Fund acquired several new securities that Fund Management had been tracking for a long time – several years in some cases. In addition, the Fund was able to increase its position in twelve existing holdings. The Fund's cash balance was approximately 16% at July 31 and got down to about 3% by the end of August. During September and October, the Fund reduced and/or eliminated a few holdings based on price appreciation and the need to rebuild cash reserves for future opportunistic purchases. The Fund's cash reserve at 31 October was 13%, which Fund Management considers to be prudent.

Hovnanian Notes

The Fund initiated a position in the Senior Secured Notes of Hovnanian Enterprises. Hovnanian is the seventh largest homebuilder in the United States with communities throughout the Northeast and Mid-Atlantic, as well as Texas and California. While the company's homebuilding business has gradually improved over recent quarters, Hovnanian remains saddled with too much debt stemming from aggressive expansion efforts prior to the downturn in the U.S. residential markets. Outside of a broad based recovery in the U.S. homebuilding business in the next 12-18 months, it seems likely that Hovnanian will have to take more drastic steps to restructure its balance sheet as the company is currently burning through about $100 million of cash annually. The most immediate option for the company might be to enter into a pre-packaged bankruptcy plan, or "pre-pack", whereby it would convert its Unsecured Notes to Equity, thus leaving the Senior Secured Notes outstanding. In this scenario, the Fund's investment in the Senior Secured Notes would benefit from being perceived as an "improved credit" with Hovnanian having substantially reduced its debt load and the associated interest expense. Hovnanian has $797 million of Senior Secured Notes outstanding, which is senior to total outstanding unsecured debt of $832 million. If a "pre-pack" proves too difficult to negotiate out-of-court, the company may be forced to seek bankruptcy protection as it further depletes its cash resources. In this event, the Senior Secured Notes would be the fulcrum security in the reorganization with a first priority lien on the vast majority of Hovnanian's cash and homebuilding operations. In a reorganization, the Senior Secured Notes are likely to be (a) refinanced, (b) repaid with proceeds from selling the platform, or (c) converted to equity in a well-capitalized builder that will be positioned to participate in a recovery in the U.S. residential markets. While we wait for either a restructuring or a less likely bounce back in homebuilding activity, the Fund is receiving approximately a 12% cash return on its investment in Hovnanian's Senior Secured Notes.

General Growth Common

During the market sell-off in August, the Fund re-established a position in General Growth Common. General Growth Properties, or GGP, owns the second most valuable portfolio of regional malls in the United States, with 180 properties nationwide. GGP is not new to the Fund. In fact, in 2008, the Fund's American counterpart owned GGP bank debt prior to the company filing for bankruptcy protection in 2009. We anticipated that GGP bank debt would be refinanced, paid back at par plus accrued interest, or converted to equity in a better capitalized company. The Fund ended up selling its investment in the Bank Debt in excess of par value and then recycling the capital to General Growth Common prior to the company emerging from bankruptcy. It was our view, at the time, that General Growth Common would ultimately trade in-line with other U.S. REITs after exiting bankruptcy. This indeed ended up being the case and the Fund sold its position. However, after the recent market sell-off, General Growth Common was trading at a sizeable discount to net asset value allowing the Fund to re-establish its position. The thesis this time is straightforward: the Fund is buying into an irreplaceable mall portfolio at a discount to net asset value and investing alongside a control group that is actively taking steps to enhance value. Some of these actions include: (i) actively managing its portfolio by re-leasing space at rents in excess of expiring leases and filling stores that were vacated while GGP was in bankruptcy, (ii) further reducing its interest costs by refinancing mortgage debt at historically low rates and extending out maturities, (iii) repurchasing shares at a discount to underlying value, and (iv) spinning-off the lower quality properties with substantial cap-ex needs into a separate entity. As General Growth executes on these initiatives over the next 18-24 months, it is our view that General Growth Common will trade in-line with net asset value (which we expect to grow as management implements the above noted initiatives). Given the prospects for GGP to generate industry-leading cash flow growth, its low-cost, long-term debt and focus on Class A malls where rental income should continue to compound at above-average rates, it is not inconceivable that General Growth Common will be a "must own" stock in the REIT sector and trade at a premium valuation.

Segro Common

Segro is a U.K.-based real estate investment trust that owns more than 60 million square feet of industrial properties, approximately two-thirds of which is located in the U.K., where it has a dominant position in London's key industrial sub-markets of Heathrow, Royal Park, and Slough Estate. The remaining one-third is located in continental Europe, primarily in Germany, France, and Poland. As the market swooned in August due to concerns about slowing global trade and its impact on industrial properties, most notably in Europe, the Fund was able to acquire Segro Common at a substantial discount to net asset value and an implied cap rate (*i.e.*, initial yield) north of 8% on in-place income. The stock price seems even more attractive when considering the company's in-place cash flow is depressed, with more than 13% of the portfolio currently vacant. A substantial portion of that vacancy is attributable to a portfolio that Segro opportunistically acquired, in 2009, which primarily consists of class-A industrial properties that were under managed by the previous owner. Segro's management team expects to be able to lease up the vacant space. As the cash flows increase from this leasing activity, and macro concerns subside, Segro Common should trade back in-line with net asset value. If not, Segro seems like a very attractive acquisition candidate with its highly coveted, market dominant position in London.

Hang Lung Common

The Fund took advantage of the market sell-off in Hong Kong property stocks by re-establishing a position in Hang Lung Common at a discount to our estimate of net asset value. The Fund had previously held Hang Lung Common (since 2009) and sold it last year after it appreciated to full value. Hang Lung Properties owns a portfolio of income-producing properties in Hong Kong,

as well as mainland China where it is the premier developer of high-end shopping malls in the country, with four very well-located malls in operation and a pipeline of five more developments that will deliver an additional 21.6 million square feet located in prime locations within each city center. The commercial property portfolio generates recurring income of over HK$4 billion per year. The company has an extremely strong financial position, with HK$15 billion of net cash (cash exceeds total outstanding debt), as of 30 June 2011. The financial position is further supported by a portfolio of residential properties in Hong Kong that are held to be opportunistically sold. Hang Lung has an excellent track record of buying land cheaply at the bottom of cycles, avoiding purchasing land during ebullient times and taking a long-term approach to creating value. This has resulted in Hang Lung controlling some of the best-located sites in each of its respective cities.

City Developments Common

Recent government regulations aimed at slowing the residential housing market in Singapore have resulted in an uncertain near-term outlook for residential developers and created an opportunity for the Fund to acquire City Developments Common at a substantial discount to net asset value. City Developments is a Singapore-listed real estate operating company. Its key assets include (i) a 7 million square foot portfolio of primarily office and retail properties located within Singapore's central business district, (ii) one of the largest land banks in Singapore, which is primarily residential and can accommodate a further 7 million square feet of future development, and (iii) a 54% ownership interest in Millenium & Copthorne Hotels, a separately-listed hotel chain with assets in gateway cities around the world. City Developments' strong balance sheet (net debt accounts for less than 20% of assets and over S$1.7 billion in cash) should enable the company to wait out the near-term residential slowdown, rather than cutting prices on residential units (as less well-financed developers may be forced to do). The company was founded and is still controlled by the Kwek family, which has an impressive long-term track record of creating shareholder value and is well-aligned with minority shareholders through its 49% ownership stake.

FOREST CITY ENTERPRISES — THINGS CHANGE

As the global financial markets began teetering again in July due to European sovereign debt issues, the downgrade of U.S. sovereign debt, fear of a hard landing in China, etc., market participants pulled out their 2008 playbook and dumped their "risky" holdings (very few equity markets were spared). August and September were ugly months for the Fund's largest holding, Forest City Common (down 41%), while the U.S. REIT index was only down 16%. Fund Management attributes this recent divergence in performance to factors that have little to do with fundamental valuation. Those factors include: (1) Forest City is not a REIT and does not pay a dividend on its common stock; (2) Forest City is not a "pure-play" commercial property landlord; it has several business units (*e.g.*, military housing management, residential land development and urban commercial developments) that create complexity when valuing the stock; (3) Forest City has two share classes with differentiated voting rights, effectively giving insiders control over board elections and major corporate decisions (which thwarts any threat of an unfriendly change of control); (4) the return expectations of the company's development pipeline, most notably its Ridge Hill project in Yonkers, New York, remain uncertain. Simply put, the prospect of another potential global economic crisis has driven investors to seek safety in securities that are more mainstream, less complex and provide "theoretical" downside protection by paying regular cash dividends. Investors with allocations dedicated to the U.S. real estate sector seem to be making the easy choice: own large-cap U.S. REITs (irrespective of fundamentals such as price-to-NAV or price-to-cash flow). Despite Forest City Common trading at a substantial discount to its REIT peers, it is not a stock dedicated real estate investors "need" to own, especially during highly uncertain economic periods.

In October, Fund Management met with Forest City's senior management to initiate discussions regarding strategic initiatives the company could employ to enhance shareholder value and encourage other investors' interest in owning a stake in the company. Specifically, Fund Management suggested that Forest City (1) modernize its corporate governance by (a) planning for the elimination of the dual class share structure and (b) reducing the number of directors; (2) divest its non-core businesses to reduce complexity and use proceeds to reduce corporate-level debt and conduct a tender offer for common shares at a premium to market price, but discount to NAV; and (3) enhance financial reporting by (a) early adoption of International Financial Reporting Standards (IFRS) which would include disclosure of appraised values for its property portfolio and (b) changing its year end to December 31, instead of January 31, so that financial reporting periods coincide with the rest of the industry. Following the meeting, Fund Management filed a Schedule 13D with the U.S. Securities and Exchange Commission stating the fact that it had initiated discussions with the company and that it may also contact and form strategic alliances with other significant shareholders, or others, for a common purpose should it determine to do so, and/or recommend courses of action to the company's management, board, shareholders and others.

"Our proactive portfolio adjustments represent a logical evolution in our process and highlight our awareness of changes in the macro environment and how they affect our portfolio holdings."

Forest City management reacted positively to the initial and subsequent discussions, giving Fund Management hope that many, if not all, of the recommendations will be considered. Market participants also seemed to react favorably to the 13D filing – Forest City Common increased from $9.84 on 4 October (the day before the filing) to $13.68 on 31 October (up 39%).

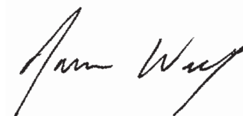
Forest City Common is the Fund's largest holding because Fund Management believes it offers the highest risk-adjusted return profile over the next few years and, as its development projects come on line, there are excellent prospects for continued NAV growth. If the company implements some or all of our recommendations and communicates its intentions to stakeholders, we believe the market will recognize the attractiveness of Forest City Common, and the persistent trading discount (relative to Forest City's peers) should permanently dissipate. Fund Management has had a long-standing relationship with the company and we believe Forest City's management, board and insiders are, in fact, motivated to act appropriately so that the market price of Forest City Common more closely reflects underlying intrinsic value. If Forest City Common were to trade in-line with our conservative estimate of "as-is" NAV, this would represent appreciation of more than 40% (based on the closing price on 31 October). If it were to trade in-line with the valuations for its U.S. REIT peers, this would represent appreciation of more than 80%.

As highlighted by the above comments on Forest City, things change. Hopefully, it is also apparent from the Fund's recent activity that Fund Management has learned from these unexpected changes. We have revised our thinking on concentration limits for individual securities in the portfolio (*e.g.*, the largest position at quarter-end was 6.6% of the Fund's net assets and the Fund's top-ten holdings represented 42.1% of net assets; two and a half years ago, the largest position was 8.2% and the top-ten holdings represented 51% of net assets). We have also been more proactive in reducing and/or eliminating holdings based on price appreciation or to reallocate into securities with more attractive valuations. After eliminating holdings

from the portfolio, they usually remain on our back-up portfolio list and are candidates for future purchases if the fundamentals remain promising and they can be reacquired at substantial discounts to NAV (*e.g.*, the sale of Hang Lung Common in 2010 and repurchase in 2011; the sale of General Growth Common earlier in 2011 and the recent repurchase; and the reductions in two U.K. home builders and several Japanese holdings). These proactive portfolio adjustments do not represent a change in Fund Management's fundamental approach to analyzing businesses and the prices of their securities, nor does it mean that we are now engaged in "market timing". We time our entry and exit from securities positions based upon fundamental valuations, not on expectations of price movements in the market. Our proactive portfolio adjustments represent a logical evolution in our process and highlight our awareness of changes in the macro environment and how they affect our portfolio holdings.

We look forward to writing you again next quarter. Best wishes for a healthy and prosperous New Year.

Sincerely,



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

Third Avenue International Value Fund
(Unaudited)

Amit B. Wadhwaney
Portfolio Manager of Third Avenue International Value Fund

Dear Fellow Shareholders:

We are pleased to present you with the fourth quarter 2011 commentary for the Third Avenue International Value Fund UCITS ("The Fund"). The Fund seeks to achieve long-term capital appreciation with limited investment risk by investing opportunistically, without constraints on geography, market capitalization or industry. A list of portfolio changes follows with thoughts on a few securities of note.

QUARTERLY ACTIVITY

New Positions

Daimler AG
Petroleum Geo Services
Precision Drilling Corp.
Segro Plc.

Positions Increased

Allianz
Alma Media
Antarchile
Atrium European Real Estate
Boardroom
Encana Corp.
GlaxoSmithKline
Guoco Group
Hutchison Whampoa
Leucadia National
LG Corp.
Mitsui Fudosan
Munich Re
Netia
Nexans
Resolution Ltd.
Rubicon
Sanofi
Taylor Wimpey
Titan Cement
Viterra
Weyerhaeuser
White Mountains Insurance
Yuanta Financial

Positions Decreased

Andritz
Asatsu-DK
Dundee Precious Metals
Kinross Gold
Lundbergföretagen
Newmont Mining
Sampo
Tokio Marine Holdings

Positions Eliminated

Cenovus Energy
United Microelectronics

REVIEW OF QUARTERLY ACTIVITY

During the quarter, fears of a slowdown emanating from China, combined with continuous European sovereign news flow that has failed to inspire confidence, caused a severe sell-off of European automobile manufacturers. It was felt acutely by the dominant luxury auto manufacturers, which have always derived a large portion of their revenue from Western European markets but have increasingly been reliant on Asia, specifically China, for growth (albeit to varying extents).

Succumbing to the pressure was the stock price of one of the Fund's newest investments, Daimler AG ("Daimler"), the maker of Mercedes-Benz cars and a large global manufacturer of trucks, buses and vans. In addition, the company also operates a large financial services business to facilitate the acquisition of its vehicles. In the difficult 2008-2009 period, the company raised roughly €2 billion of equity, and has throughout the ensuing economic recovery been a prodigious generator of unencumbered cash. Today, the company has an estimated €10 billion of surplus cash, not including several billion euros of non-core equity holdings which may be disposed of in the foreseeable future.

While its peers have long been lauded for their China-driven growth, Daimler has been playing catch up. Because of the more recent development of its Chinese presence, Daimler derives a significantly smaller percentage of its revenue from China than its peers and, thus, has less direct sensitivity to a slowdown in what has been a feverishly fast-growing passenger vehicle market. There is, indeed, recent evidence to point to a meaningful cooling off of this rapidly growing market. Additionally, because of its historically smaller presence in China, Daimler also arguably has more opportunity than its peers to increase its vehicle volumes there, which has been exactly the case over recent periods.

The last few years of Daimler's operating performance include both the worst crisis in many decades as well as the more recent period, which has been record-setting. With the premise that neither extreme is likely to be a normal long-term operating environment for the company, the current price seems to reflect an overly draconian assessment of a well-capitalized business, which boasts one of the world's iconic brands.

Another new position added during the quarter, was the common stock of Petroleum Geo-Services ASA ("PGS"), which is the third largest seismic company globally, providing marine seismic imaging primarily to oil and gas companies. The seismic industry is one with fairly violent cycles – a characteristic that, from time to time, has provided us with opportunities to invest in seismic companies at attractive prices.

PGS proved not to be immune to the ups and downs of its industry, and declared bankruptcy in 2003 due to a confluence of its rapid expansion, a prolonged recession in the seismic market, and aggressive accounting. Post-bankruptcy, PGS streamlined its businesses, refinanced its debt and updated its vessel fleet. While PGS became the owner of the most modern fleet, the slowdown in 2008 combined with PGS' asset-heavy balance sheet resulted in management once again facing an uncomfortable position.

This time around, PGS preemptively took steps to strengthen its balance sheet. In December 2009, the company made the move to focus solely on marine seismic with the sale of its onshore seismic business, a segment that is significantly less profitable than marine and far more competitive. In addition to that sale, a combination of old vessel sales, equity raising and debt refinancing has left PGS today with a significantly stronger balance sheet and one of the most modern seismic fleets amongst the three top seismic players. Volatility in oil prices, fear of prolonged reductions in E&P activity (*e.g.*, in the Gulf of Mexico and the Middle East given the unrest there) and a short-term over-supply of seismic vessels have clouded the short-to-medium term outlook for PGS, allowing us to invest in a quality company at, what we believe to be, very reasonable valuations.

The Fund also initiated a position in the common shares of Calgary-based Precision Drilling Corporation, a leading, integrated North American oilfield driller and provider of energy servicers to the oil and gas exploration and production industry. A major Canadian energy services provider, in 2008, Precision Drilling acquired Houston-based Grey Wolf Inc. to expand its operations in the U.S. The sharp economic downturn and reduction in drilling activity that followed this acquisition, however, forced the company to take a number of actions to strengthen its balance sheet. In early 2009, Precision Drilling completed an equity issue and a rights offering, in addition to a refinancing of some of the debt resulting from the acquisition. Additionally, the company, which was formerly structured as an income trust, discontinued its dividend, further reducing cash usage.

Having navigated through one of the more difficult periods in the company's history, Precision Drilling has emerged with a significantly strengthened financial position; it currently holds about C$500 million in cash in addition to C$550 million of availability under its revolving credit facility. Net debt amounts to only about 1.25x the operating earnings that the business has generated over the trailing twelve months, and the company faces no significant debt maturities until 2019.

The much-improved capital structure complements what has long been a formidable position in the North American energy services market. Precision Drilling is currently one of the most active drillers in North America, with nearly 240 active rigs, in addition to about 200 well service rigs. The company is currently the continent's leading horizontal driller – a distinction that may take on increased importance with the growth of unconventional drilling – and holds strong positions in all of the continent's key gas shale and oil plays. Shares were purchased at what we believe is a modest multiple of operating earnings.

Another new investment added to the Fund's portfolio during the quarter, Segro PLC, is a U.K.-based real estate investment trust which owns in excess of 60 million square feet of industrial properties primarily in the U.K. and, secondarily, in Continental Europe. The U.K. properties are largely located in the highly desirable, space-constrained, and hard to enter southeastern portion of the country. The Continental European properties are mostly located in Germany, France and Poland. Valued on an *as-is* basis, the common stock was purchased at a discount in excess of 30% to our estimate of its net asset value ("NAV"), as its currently depressed pricing has mirrored broader economic concerns and a somewhat narrower concern that a portion (about 13%) of the portfolio is currently vacant. Much of this vacancy stems from the 2009 acquisition of Brixton PLC, whose previous management team appeared to be less inclined to maximize cash flow than Segro's current management team has been. Should management be successful in improving the occupancy rates and the cash flow of the company, and/or the economic backdrop is perceived as becoming less hostile, this wide discount to the NAV is unlikely to be sustained. Alternatively, should the gap between price and the NAV persist, given the scarcity value that one could attach to Segro's assets in a more normal environment, this company is apt to present an attractive acquisition target to either a strategic or a financial buyer.

INSURANCE COMPANY INVESTING DURING FINANCIAL CRISES

As if the scrutiny to which financial services companies worldwide had been subjected of late was not intense enough, two events that took place during the most recent quarter have managed to place financial stocks ever more firmly under the microscopes of skeptical investors worldwide. The first event – though probably the less important one in the short term – was the much ballyhooed downgrade of U.S. federal debt by Standard & Poor's in August. Secondly, the worsening of the European sovereign debt crisis and the ongoing, though to date, futile attempts of European governments to defuse it have exacerbated investor fatigue. Though nothing particularly new – the prospect of a default by

one or more European countries has worried investors for more than two years now – these concerns intensified over the summer and turned into a full-blown panic by the end of August of this year. Market commentators launched into elaborate speculations about the impact of a sovereign default on the financial system. As wild rumors swept the markets, common stocks of financial institutions sold off indiscriminately.

We are often asked by fellow investors in the Fund about our exposure to financial institutions, particularly those in Europe. The first relevant point to make is that we have avoided investing directly in European banking stocks throughout the ongoing sovereign turmoil (and, truth be told, throughout the strategy's history). However, the Fund has, in fact, included holdings in European insurers in recent years. Some of these holdings – most notably Allianz SE and Munich Re – have inspired questions and concern from market participants, perhaps understandably so, given the significant role that each of these institutions plays in Continental European and global financial services markets. However, lumping together insurance companies, particularly well-capitalized ones like those that can be found in the Fund, with commercial and investment banks may very well prove misguided. Indeed, we believe – based on our experience in observing financial crises that have taken place globally over many years – that not only are insurance companies much more resilient than banks, but, in fact, they can become beneficiaries of disruptions in financial markets, with the related benefits ultimately accruing to shareholders such as the Fund.

We seek out common stocks of insurance companies that possess the following attractions: they reliably generate cash from underwriting, use conservative reserving and accounting policies, do not take undue risks in their investment portfolios, have excess capital, and avoid borrowing money at the holding company level. Insurance companies that pass our selection criteria – which seem simple enough, but at times have proven to be a set of hurdles surpassed by few – tend to be far more resilient than their competitors. Moreover, our experience has shown that insurance companies fare better in financial panics than do banks, for the reasons outlined below. It is instructive that much ink has been spilled over the prospects and dangers of a European banking crisis, but the term "European insurance crisis" remains unknown to Internet search engines.

Insurance companies have a number of characteristics that support their resilience in a financial crisis:

1. INSURANCE COMPANIES DO NOT NEED ACCESS TO LIQUIDITY

The most important difference between banks and insurance companies can be found in the structure of their balance sheets. In general, banks borrow short term (via deposits or wholesale funding) and lend long term. The upshot of this fact is that many banks need recurring access to short-term funding to keep their business model chugging along. Their dependence on the health of wholesale financial markets may seem inconsequential while the good times roll (say, in 2006 or 2007). But, alas, all good things must come to an end, or to a temporary respite at the very least. And when they do, banks' reliance on wholesale funding markets becomes a far more serious limitation. Indeed, any disruption of those markets, or concerns about the solvency of the particular bank in question, could quickly lead to liquidity issues. These liquidity issues, in turn, can ultimately result in a fate that very well might have been nearly unimaginable during better times: a permanent impairment of capital, perhaps via forced capital raising (perhaps with the bank's hand forced by government, for example), or even the outright liquidation of the bank.

Such an outcome should, indeed, be frightening for investors. But, as compared to banks, we believe the business model employed by insurance companies, in general, is much more resilient, and it does not share this dependence on short-term liquidity in order to operate. Insurance companies tend to do a better job, consciously, of matching the duration of their assets and liabilities (if

anything, their assets tend to be shorter duration than their liabilities). As long as they avoid excessive debt at the holding company level and remain well capitalized at all levels of the corporate structure, they generally do not need to access wholesale financial markets to fund their continuing operations. In short, the business models of well-capitalized insurance companies, such as those held in the Fund, are generally not dependent upon wholesale financial markets, whose notoriously fickle nature at times (such as during credit crunches) could threaten to bring capital market-dependent banks to their knees.

2. ASSET AND LIABILITY MATCHING BY COUNTRY AS WELL AS BY DURATION

Insurance companies have a well-deserved reputation for being exceedingly complicated. But as frustrating as it may be to encounter unnecessary complexity in life, at times it may be useful to heed the advice of Albert Einstein, who famously warned, (note: we are paraphrasing here) "Everything should be made as simple as possible, but no simpler." In the case of insurance companies, we believe that, ironically enough, their complexity can provide not only protection and robustness, but, ultimately, opportunity for investors. A large insurance group, such as an Allianz or a Munich Re, which operates across multiple geographies and/or business lines, is typically organized within a publicly-listed entity. While the common stock of this listed entity is what investors actually trade on stock exchanges, functionally the listed entity acts as a holding structure for its collection of local, separate operating insurance entities. That each of these individual operating subsidiaries has its own balance sheet is a fact which is obscured by accounting consolidation for financial reporting purposes, which basically aggregates all of the subsidiaries' assets and liabilities in the financial statements reported by the listed holding company.

While this fact may seem to be simply an accounting technicality, in actuality it has interesting implications for the robustness of the listed insurance holding company. Each of the aforementioned, individual local entities is compelled to satisfy its own local regulators that it has sufficient capital for its operations, and can be, in effect, ring-fenced from the rest of the group. This could prove to be a useful characteristic in times of stress. Suppose, for example, that there is ultimately a catastrophic failure of the "Euro Project," perhaps resulting in the ejection of a country from the Eurozone. In this draconian type of scenario, it is worth noting that a local insurance subsidiary operating in the country which has been kicked out will likely have matched its assets in that country with its liabilities. That would not change the fact that, if a country were to be ejected from the Eurozone, it is likely that the assets of an insurance company operating there would experience some impairment. However, this asset impairment would be mitigated by a concomitant decline in liabilities.

To make this abstract scenario more concrete, take the German insurance company (and Fund holding) Allianz, which reports large gross exposure to Italian government bonds, a fact which from time to time elicits concern from investors for obvious reasons. But in fact, Allianz's Italian subsidiary is the second largest insurance company in Italy, and it holds Italian fixed income securities to balance its Italian liabilities. The likely consequence of this is that any redenomination of Italian assets (*e.g.*, from euro to lira) would be matched by the same redenomination of Italian liabilities, with a muted net impact on the consolidated group.

Furthermore, this concept of self-contained or self-sustaining insurance units would take on even greater importance in another, more draconian scenario. Suppose, for example, that a country were to institute capital controls. One might become concerned that the insurance subsidiary operating in that country might not be able to access capital from its holding company abroad, given said capital controls. But even in this case, the local insurance subsidiary operating there, with matched assets and liabilities, would be able to use the cash flow from its maturing assets to meet its local liabilities, without needing to access capital from the holding company outside of the country.

3. SHARING OF LOSSES WITH POLICYHOLDERS

European life insurance contracts are often based on the idea of policyholder participation: profits (and losses) from the insurer's investment portfolio are shared between policyholders and shareholders, sometimes with a rigid ratio. Therefore, money defaults and impairments of investment assets do not fall directly to shareholders' equity; the net impact to shareholders is smaller than the gross exposure might suggest.

Specific arrangements on policyholder participation in profits and losses differ greatly from country to country and from product to product, making it difficult to generalize. Local regulators have the final say on the allocation of profits and losses and on minimum guaranteed returns. Insurance companies have built up reserves for investment losses (from excess profits in previous years), and are able to draw these reserves down under adverse conditions. In effect, these reserves provide an additional cushion protecting the financial strength of insurance companies.

"If anything, financial crises provide opportunities to insurance companies to take advantage of their excess liquidity, at times when their banking and investment banking counterparts might be paralyzed by distress."

Although the encouraging attributes highlighted above might be considered to be theoretical, actual historical experience has, in fact, confirmed the greater resilience of the insurance model, versus the banking model, during periods of adversity. When insurance companies become impaired, it tends to be as a result of underwriting mistakes; it is relatively less common for an insurance company to blow up because of investment mistakes. And as noted above, one of our criteria that the Fund's insurance investments must meet is a demonstrated ability to underwrite profitably over a reasonable period of time. We believe that insisting on this attribute significantly limits the odds of being felled by the banana peel that has often been the culprit behind most insurance company impairments.

If anything, financial crises provide opportunities to insurance companies to take advantage of their excess liquidity, at times when their banking and investment banking counterparts might be paralyzed by distress. A sterling example of such a maneuver was Munich Re's acquisition of Hartford Steam Boiler from AIG in the depths of the 2009 financial crisis, at such an attractive valuation that it led former AIG Chairman and CEO Hank Greenberg to send an angry, open letter to AIG's Board of Directors. More recently, Allianz has expressed interest in providing liquidity to the sovereign credit market by participating in a public/private bond insurance program, at the right price.

In conclusion, we will continue to monitor European developments closely. We believe that the companies in which we have invested are resilient and will emerge from the crisis unimpaired, while offering attractive prospective returns to long-term investors.

GEOGRAPHICAL DISTRIBUTION OF INVESTMENTS

At the end of October 2011, the geographical distribution of securities held by the Fund was as follows:

Country	% of Net Assets
Canada	11.72
United States	11.06
United Kingdom	10.22
Japan	7.74
Singapore	7.26
Germany	6.82
Poland	5.68
France	5.41
Hong Kong	4.14

Third Avenue International Value Fund (continued)
(Unaudited)

Country	% of Net Assets
Austria	3.21
Finland	2.97
Taiwan	2.74
South Korea	2.68
Switzerland	2.25
Greece	1.68
New Zealand	1.63
Chile	1.59
Sweden	1.25
Norway	0.88
Equities-total	90.94
Cash & Other	9.06
Total	100.00%

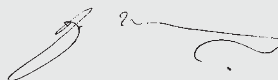
Note that the table above should be viewed as an *ex-post* listing of where our investments reside, period. As we have noted in prior letters, there is no attempt to allocate the portfolio assets among countries (or sectors) based upon an overarching macroeconomic view or index-related considerations.

LOOKING BACK ON THE PAST TEN YEARS

As the Third Avenue International Value Fund (this Fund's sister fund), approaches the tenth anniversary of its inception, I would like to express my gratitude to our shareholders who have allowed us the possibility of engaging in our long-term investing approach in a world increasingly populated by investors (nay, traders) with ever shrinking time horizons. This has afforded us the opportunity of investing our fellow shareholders' assets in, what we believe to be, an unusually attractive portfolio of investment opportunities. An endeavor such as this one, with its attendant labor intensity, cannot be the work of a single person (notwithstanding the single signature at the bottom of this letter), but is rather the product of a collective effort of a team of hardworking and unusually bright investment analysts for whose input and support I am grateful. The group has grown over a number of years, mirroring the Fund's development, and reflects a variety of "vintages" of seasoning, with Matt Fine being the first to join me in 2004, and our most recent addition, Michael Campagna who joined us after five years in other parts of the research department at Third Avenue. I am thankful to the entire Third Avenue team for their hard work and dedication. I look forward to continuing our work together to create long-term value for our fellow shareholders for many years to come.

I look forward to writing to you again when we publish our Quarterly Report for the period ended 31 January 2012. Best wishes for a happy and prosperous New Year.

Sincerely,



Amit Wadhwaney
Portfolio Manager,
Third Avenue International Value Fund