Third Avenue Funds

Dear Fellow Shareholders,

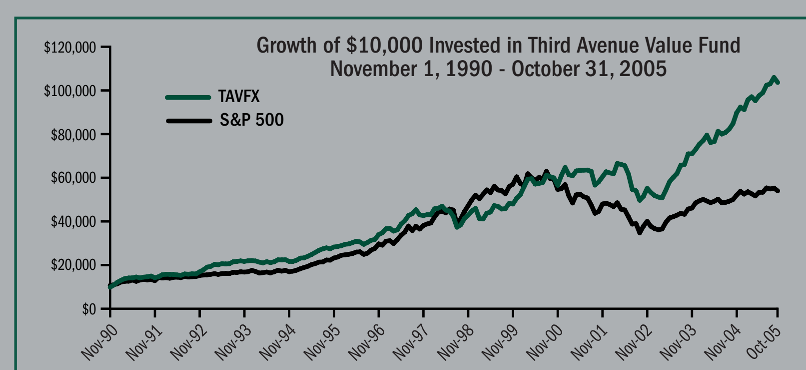
For the past 15 years, we have written to you every quarter and discussed, in great detail, the same value investment philosophy...over, and over, and over again. Even before you open this book, you know that each fund's portfolio manager is going to write about the same "safe and cheap" investment philosophy and fundamental research process. You understand that instead of speculating about the market and the latest hot trends, our letters will focus on topics relevant to value investing, and will discuss the undervalued securities of companies which we believe are well capitalized and have the potential to create value over the long term.

Forgive us if we are boring you...

Third Avenue Funds celebrates 15 years of delivering superior long-term returns to our shareholders, utilizing one proven value philosophy throughout all market cycles and investment trends.

Third Avenue Value Fund is the number one fund in its category*, with 15-year average annual returns of 16.92%.

Past performance is no guarantee of future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost.



Please turn over for additional disclosure information.

* Third Avenue Value Fund (TAVFX) ranked number 1 out of the 78 mutual funds with 15-year track records included in Morningstar's® Small-Blend Category, based upon 15-year average annual returns, as of October 31, 2005. Over the one-year, five-year and ten-year time periods, TAVFX ranked #12 (out of 410), #18 (out of 256) and #25 (out of 144), respectively, in the same category. TAVFX's one-year, five-year, ten-year and 15-year annual returns, as of October 31, 2005, were 23.55%, 11.81%, 14.31% and 16.92%, respectively. TAVFX's one-year, five-year and ten-year annual returns, as of September 30, 2005, were 28.78%, 11.87% and 14.28%, respectively.

◆ The S&P 500 Index is an unmanaged index (with no defined investment objective) of common stocks and is not a security that can be purchased or sold. Total returns are reflective of an unmanaged portfolio and include reinvestment of interest, capital gains and dividends.

Third Avenue Funds

THIRD AVENUE VALUE FUND

THIRD AVENUE SMALL-CAP VALUE FUND

THIRD AVENUE REAL ESTATE VALUE FUND

THIRD AVENUE INTERNATIONAL VALUE FUND

LETTERS TO OUR SHAREHOLDERS

Fourth Quarter Commentary

October 31, 2005

Third Avenue Value Fund

Martin J. Whitman
Co-Chief Investment Officer & Portfolio Manager of Third Avenue Value Fund

Dear Fellow Shareholders:

At October 31, 2005, the end of the Fund's fifteenth fiscal year, the audited net asset value attributed to the 108,658,702 common shares outstanding of the Third Avenue Value Fund ("TAVF", "Third Avenue", or the "Fund") was $58.62 per share. This compares with an unaudited net asset value at July 31, 2005 of $57.30 per share and an audited net asset value at October 31, 2004 of $47.38 per share, adjusted for a subsequent distribution. At December 22, 2005, the unaudited net asset value was $55.13 per share, adjusted for a distribution of $5.48 per share.

QUARTERLY ACTIVITY*

Principal activities during the quarter were as follows:

Number of Shares	New Positions Acquired
1,000,000 shares	Pfizer Inc. Common Stock ("Pfizer Common")
	Positions Increased
5,200 shares	Brookfield Asset Management Common Stock ("Brookfield Common")
1,000,000 shares	Cheung Kong Holdings, Ltd. Common Stock ("Cheung Kong Common")
1,074,000 shares	Guoco Group, Ltd. Common Stock ("Guoco Common")

Number of Shares or Principal Amount	Positions Increased (continued)
20,827,000 shares	Hang Lung Properties, Ltd. Common Stock ("Hang Lung Common")
6,081,000 shares	Henderson Land Common Stock ("Henderson Common")
6,375,000 shares	Liu Chong Hing Bank, Ltd. Common Stock ("Liu Chong Hing Common")
351,950 shares	RHJ International Common Stock ("RHJ Common")
590,000 shares	The St. Joe Company Common Stock The ("St. Joe Common")
1,173,600 shares	Toyota Industries Corp. Common Stock ("Toyota Industries Common")
	Positions Eliminated
$73,691,000	Kellstrom Industries Subordinated Debentures ("Kellstrom Subordinates")
$50,000,000	WestPoint Stevens Senior Notes ("WestPoint Stevens Notes")
100,000 shares	3Com Corp. Common Stock ("3Com Common")
356,500 shares	BankAtlantic Bancorp, Inc. Class A Common Stock ("BankAtlantic Common")
1,567,118 shares	CareMatrix Corp. Common Stock ("CareMatrix Common")

* Portfolio holdings are subject to change without notice. The following is a list of Third Avenue Value Fund's 10 largest issuers, and the percentage of the total net assets each represented, as of October 31, 2005: Toyota Industries Corp., 7.08%; USG Corporation, 4.77%; The St. Joe Company, 3.55%; MBIA, Inc., 3.18%; Brookfield Asset Management, 3.14%; Millea Holdings, Inc. (ADR), 3.02%; Forest City Enterprises, 2.62%; Posco (ADR), 2.50%; Legg Mason Inc., 2.45%; and Tejon Ranch Co., 2.38%.

Investment Amount or Number of Shares	Positions Eliminated (continued)
6,045,667 shares	CGA Group, Ltd., Series C Preferred ("CGA Preferred")
659,856 shares	CRT Properties, Inc. Common Stock ("CRT Common")
$2,202,000	ESG Partners (Bermuda) LP ("ESG LP Interest")
118,449 shares	ESG Reinsurance Common Stock ("ESG Common Stock")
$3,264,756	Head Insurance Investors, LP ("Head LP Interest")

Pfizer Common was acquired at a price of little more than ten times current earnings. Pfizer is a leading pharmaceutical company. The odds seem to favor relatively continual long-term growth for Big Pharma, in general, and Pfizer in particular, despite a clouded outlook for 2006, and maybe 2007.

Nine securities positions were increased during the quarter. Each of these investments seem to have the following characteristics. Each company seems to be extremely well financed and each common stock was acquired at prices which appear to represent a meaningful discount from readily ascertainable net asset values. Seven of the nine companies have their main operations or investments in Hong Kong, the People's Republic of China, Singapore and/or Japan. I am slightly uncomfortable with the fact that there is no protection of U.S. Law and U.S. Regulation for TAVF as a passive holder of these seven common stocks. Also, the existence of an American culture, with which Fund management is comfortable, makes it easier for TAVF to invest in the U.S., other things being equal. In terms of the Fund's investment philosophy of "safe and cheap*", these foreign common stock investments ought to be characterized as less safe, more cheap.

The position in BankAtlantic Common was eliminated because of BankAtlantic's large exposure in its loan portfolio to residential mortgages and home equity loans. It appears as if such loans today carry large amounts of credit risk for which BankAtlantic, as well as other mortgage lenders, are not being compensated adequately.

CRT Common was eliminated as a result of a cash-out merger transaction.

The other seven positions were eliminated so that TAVF could maximize its realized tax losses in fiscal 2005, a year in which the Fund proved to be notoriously tax inefficient for U.S. taxpayers. The losses in these securities, it seems to me, stem mostly from shortcomings in analysis on my part. Having had the Fund own these securities convinces me, as the fund manager, that I had better remain humble despite Third Avenue's very good long-term performance record. The Fund's performance will continue to be lumpy over time in part because, unfortunately, I seem bound to continue to make mistakes from time to time.

It is interesting to compare an investment in TAVF Common Stock with an investment as a passive investor in private equity funds seeking leveraged buy-outs. The differences appear to be about as follows:

1. TAVF is riding the coat-tails of super good managements with proven track records; *e.g.*, Brookfield Asset Management (formerly known as Brascan Corp.), Forest City Enterprises, Nabors Industries, St. Joe Company and Toyota Industries. Managements running LBO companies are probably a lot more dicey.

2. TAVF's costs to the investor are a lot lower. TAVF had an expense ratio of 1.10% of assets under management for fiscal 2005, while the typical private equity fund charges a management fee of 2% of assets under management plus 20% of realized, and unrealized, profits. This is slightly offset in some cases where private equity funds share fees received, such as home office charges, with passive investors.

3. TAVF tends to get into its investments at materially lower prices than private equity funds. The usual buy trigger for Third Avenue is where the common stocks of well-financed companies are available at prices that represent a meaningful discount from readily ascertainable net asset values. Private equity funds usually pay substantial premiums above estimates of net asset value.

4. TAVF shareholders are not subject to lock-ups of any sorts (other than a modest redemption fee for shares held for less than 60 days) and TAVF shares can

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

be redeemed daily. Most private equity funds forbid redemptions other than once a year, or quarterly after a one-year holding period.

5. TAVF is not a control investor, by and large. Private equity funds are, by and large, control investors.

6. TAVF does not borrow money. Private equity funds tend to operate with maximum leverage.

7. TAVF shareholders are the beneficiaries of a comprehensive regulatory scheme designed to protect investors. Private equity funds are largely unregulated.

To date, TAVF's long-term returns have been as good, or almost as good, as has been the case for the better-managed private equity funds[1].

GREAT ECONOMISTS CAN LEARN A LOT FROM VALUE INVESTORS

During the quarter, I reread three volumes authored by great economists: *The General Theory of Employment, Interest and Money* by John Maynard Keynes, *The Road to Serfdom* by F. A. Hayek, and *Capitalism and Freedom* by Milton Friedman. I came away with the impression that each was observing the earth with their naked eyes from 80,000 feet up. They missed a lot of details that are part and parcel of every value investor's daily life.

To begin with, the three seem to recognize only three major forces directing the economy: capital (private owners, managers or entrepreneurs), labor and government. In fact, there are myriad other non-governmental forces directing any industrial economy, including, among others, management control persons (separate and apart from private owners); creditors; rating agencies; Boards of Directors; professionals, especially attorneys and accountants; trade associations; and self regulatory organizations such as the New York Stock Exchange.

For the three great economists, governments perform four functions: control the economy; regulate sectors of the economy; set fiscal policies (budget surpluses or deficits); and set monetary policies (interest rates and the quantity of money). In the 21st century, it seems a lot more productive in determining how the nation's resources are to be allocated by the private sector to look at governments as engaged also in the following activities:

1. Levy taxes, with both tax rates and the specific methods of taxation being important.

2. Provide credit.

3. Enhance credit.

4. Provide subsidies.

5. Provide infrastructure frameworks, physical and procedural, including having reliable judicial systems.

6. Be a customer.

7. Be a competitor.

8. Provide public protection via the military, police and other.

F. A. Hayek wrote *The Road to Serfdom* in the 1940's. The book was relevant for its time. The gravamen of its arguments was that command economies without a private sector, *e.g.*, the Soviet Union then (and North Korea and Cuba today), just do not work. They deny their populaces not only economic well being but also freedom. Of course, Professor Hayek was 100% right about this. However, in no way does it follow, as many Hayek disciples seem to believe, that government is, *per se*, bad and unproductive while the private sector is, *per se*, good and productive. In well-run industrial economies, there is a marriage between government and the private sector, each benefiting from the other. Since World War II, there have been a significant number of large command economies that have worked well by utilizing an incentivized private sector. Such economies include Japan after World War II, Singapore and the other Asian Tigers, Sweden and China today. For the value investor, the issue is not government versus the private sector. Rather, it is that, in accordance with Adam Smith's invisible hand, those in control, whoever they are, should be incentivized appropriately. Government has a necessary role in determining how control persons are incentivized; and where the private sector will allocate resources in accordance with the invisible hand so that private control persons can maximize wealth for themselves, and also, by indirection, their constituents who are usually the owners of private enterprises.

Whether one likes it or not, how and where Adam Smith's invisible hand allocates resources through actions by private enterprises will be determined in large part by

[1] Based upon long-term performance of the Cambridge Associates LLC U.S. Private Equity Index®.

what government actions are. Should these government reactions be random, or at least in small part, a product of planning? In the U.S. today it seems as if the federal government directs resources mostly by “who has political clout.” There is no question but that private enterprise, in its actions, is particularly sensitive to what the federal government does in terms of tax policy, both quantitatively and qualitatively; and what the government does in terms of credit granting and credit enhancing. Control persons in the U.S. private sector are extremely sensitive to, and react very efficiently to, government policies in terms of taxation and in terms of credit granting and credit enhancing. Put in Milton Friedman’s context, Adam Smith’s invisible hand turns out to be more than random. It will be directed, at least in great part, by the government’s tax policies, and the government’s credit granting policies. Put otherwise, what government policies contribute is important to the private sector’s determination of where the profits are.

“Compared with value investors, great economists from Keynes to Modigliani and Miller seem largely oblivious to the very important role credit-worthiness plays in any industrial economy.”

Professor Hayek, however, seems to miss the opposite point that a free market situation is probably also doomed to failure if there exist control persons who are not subject to external disciplines imposed by various forces over and above competition: governmental, quasi-governmental and private sector. This is probably more true for financial markets than it is for commercial markets, but the point seems valid for both markets. Put simply, competition by itself, tends not to be a strong enough external discipline to make markets efficient. Where control persons are not subject to meaningful external disciplines, the following seems to occur:

1. Very exorbitant levels of executive compensation, a shortcoming rampant in the U.S. today.

2. Poorly financed businesses with strong prospects for money defaults on credit instruments, *e.g.*, look at the insolvencies in recent years of Long-Term Capital Management, Retail Chains and Motion Picture Exhibition companies.

3. Speculative bubbles, *e.g.*, the 1998-2000 IPO boom.

4. Tendency for industry competition to evolve into monopolies and oligopolies where the companies involved have a large degree of insulation from competitive forces. TAVF loves to invest in the common stocks of companies which have built a “moat” around their operations, insulating the businesses, at least in part, from pure and perfect competition. Such investments include the common stocks of Toyota Industries, St. Joe, Brookfield Asset Management, Forest City Enterprises, and Nabors Industries. All these companies enjoy oligopolistic characteristics.

5. Corruption: *i.e.*, Enron, WorldCom, Refco.

It ought to be noted, too, that many highly competitive industries happen not to be subject to meaningful price competition. Two such industries are money management and investment banking. In the investment banking arena, there seems to be a universal 7% gross spread involved in bringing most new issues public. Third Avenue has invested heavily in the common stocks of financial institutions where price competition seems minimal, or non-existent; *e.g.*, money managers such as Legg Mason and Nuveen; and broker-dealer financial advisors such as Jefferies Group and Raymond James. A principal disadvantage for TAVF in investing in distressed securities revolves around the rip-off of pre-petition creditors by professionals, mostly lawyers and investment bankers. Competition to obtain professional engagements in matters such as USG and Collins & Aikman is intense. But no professionals in the distressed world, with very minor exceptions, ever seem to compete on price.

Disciplines are imposed on control persons operating in free markets by many, many more entities than just governments and competitors. The great economists mostly fail to recognize the existence of these other forces imposing discipline. Some tend to be harsh disciplinarians — creditors and rating agencies; and some seem to be very weak disciplinarians — passive owners of common stocks and Boards of Directors. These other forces imposing disciplines on control persons include the following:

1. Owners.
2. Boards of Directors.
3. Creditors — especially banks.
4. Rating Agencies.
5. Labor Unions.
6. Trade Associations.
7. Communities.
8. Auditors.
9. Attorneys.

Compared with value investors, great economists from Keynes to Modigliani and Miller seem largely oblivious to the very important role credit-worthiness plays in any industrial economy. Indeed, a principal shortcoming of our current monetary and fiscal authorities, especially Alan Greenspan, is that credit-worthiness does not seem to be on their radar screen at all. The authorities seem focused on Gross Domestic Product and the control of inflation-deflation. They worry not about credit-worthiness, which ought to be the third leg of their analytical stool. Credit-worthiness in the U.S. seems to be a mixed bag when looking at the three principal economic entities: Private Businesses, Governments and Consumers. On the one hand, corporations, in general, perhaps including depository institutions, probably have never been more strongly financed. On the other hand, Governments — federal, state and local — and Consumers probably have never been less creditworthy than they are now. I think the TAVF common stock portfolio is fairly well insulated against money defaults from any sector, but I'm not sure.

Milton Friedman is "gung-ho" for free markets, unfettered by government intervention. As he states on p. 22 of *Capitalism and Freedom*, "To the liberal, the appropriate means are free discussion and voluntary co-operation, which implies that any form of coercion is inappropriate." Professor Friedman also states on p. 13, "Fundamentally, there are only two ways of co-ordinating the economic activities of millions. One is control direction involving the use of coercion — the technique of the army and the modern totalitarian state. The other is voluntary co-operation of individuals — the technique of the market place."

Professor Friedman, unfortunately, seems to have no background, or experience, in corporate finance. If he did, he would understand that public corporations just would not work unless, in the relationship between control persons and owners, certain activities would encompass voluntary exchanges while other activities would encompass coercion. So it is also on the national and global levels.

Also, given a background in corporate finance, Professor Friedman would get to understand that there are three general ways for coordinating the economic activities of millions, not two. One is central direction without the existence of a private sector. The second is complete voluntary cooperation without the existence of many coercive external disciplinary forces, whether governmental or private, influencing the marketplace. The third general way is the real world situation where governments and other external forces have an influence on, and frequently direct, the activities that transpire in the market place. Indeed, the various marketplaces in the U.S. seem to be ultra sensitive to certain directions they get from governments through tax policies, credit granting and regulation.

In public corporations, there are certain activities that are essentially voluntary and others that are essentially coercive from the point of view of non-control securities holders. Voluntary activities, where each person makes his or her own decision whether to buy, sell, or hold, encompass open market trading activities, certain cash tender offers, private purchase and sale transactions and most exchanges of securities, including the out-of-court restructuring of troubled companies. Coercive activities, where each individual security holder is forced to go along with a transaction or event, provided that a requisite majority of other security holders so vote, encompass proxy voting for Boards of Directors; most merger and acquisition transactions including reverse splits and short form mergers; certain cash tender offers; calls of convertible bonds or preferred stocks; the reorganization of troubled companies under Chapter 11 of the Bankruptcy Act; and the liquidation of troubled companies under either Chapter 7 or Chapter 11 of the Bankruptcy Act.

I am as one with Professor Friedman that, other things being equal, it is far preferable to conduct economic activities through voluntary exchange relying on free markets rather than through coercion. But Corporate America would not work at all unless many activities continued to be coercive; security holders may get a right to vote (which vote may be pro forma and meaningless), but the security holders are coerced into going along whether they like it or not once a requisite vote has taken place. Incidentally, appraisal rights under state law, can be pretty meaningless in the scheme of things in merger and acquisitions, and can hardly be thought of as voluntary. Without some element of coercion, two undesirable things are bound to occur in a free market:

1. Adverse selection, *i.e.*, individuals who believe they are benefited economically by a transaction go along, while those who believe otherwise opt out of the transaction. If this were permitted, there would be no mergers and no Chapter 11 reorganizations, something highly destructive to corporate well being and the well being of the general economy.
2. There would be unsolvable hold out problems. For example, voluntary bond exchanges to make a company more credit-worthy would frequently be doomed to failure because those who hold out know that because of their hold out, their bond position would be credit enhanced if most of the other bondholders exchange.

Assuming that the goal of an economy ought to be to maximize the average per capita income, and wealth, for its citizens (or residents), then adverse selection and hold out problems have to modify, in certain areas, reliance solely on voluntary exchanges or the free market. Specifically, there are areas where, because of adverse selection and hold out problems, the U.S. should not rely wholly on market mechanisms. These areas include the following:

- Medical Care: There is one good measure of how well cared for a population is; to wit, the average age of death. Here, the U.S. performs worse than most industrial economies. This seems a shame because the very best medical care in the world exists in this country for those who can afford it. The country would be much healthier if all its residents had access to decent medical care without adverse selection opt-outs.
- Social Security and Pension Plans: Clearly, the adverse selection problem will loom large if these retirement mechanisms are made wholly, or almost wholly, voluntarily.
- Education: This country seems to be falling behind much of the rest of the industrial world in elementary through high school education, even though the U.S. probably still has the best university system in the world. There seems to be a real problem between allowing each parent to pick the school which their child should attend and the problem of adverse selection. Tough choice; I don't have any easy answers.

Government regulation is not, *per se*, good or bad. There is good regulation and there is bad regulation. An example of good regulation is the Investment Company Act of 1940 as amended. An example of bad regulation is the Sarbanes-Oxley Act of 2002.

It ill behooves any successful money manager in the mutual fund industry to condemn the very strict regulation embodied in the Investment Company Act of 1940. Without strict regulation, I doubt that our industry could have grown as it has grown, and also be as prosperous as it is for money managers. Because of the existence of strict regulation, the outside investor knows that money managers can be trusted. Without that trust, the industry likely would not have grown the way it has grown. Outside investors know that the money managers cannot steal, cannot be involved in self-dealing, are limited in causing the fund to borrow money, fees charged are controlled, and the mutual fund must diversify as a practical matter. All of this occurs for the benefit of shareholders, while still permitting the money manager to prosper mightily from the receipt of management fees. This is an example of good, intelligent regulation. Messrs. Hayek and Friedman probably do not recognize the existence of such beneficial regulation.

On the other hand, Sarbanes-Oxley, or "SOX", is an example of stupid, non-productive regulation. It seems to be regulation based on the belief that every company, every Chief Executive Officer, and every Chief Financial Officer, is associated with Enron, WorldCom or Refco. Every company, therefore, should be subject to onerous regulation although such regulation does not seem to do anything, or much at all, about investor protection. The upshot of SOX is that it detracts mightily from the attractiveness of U.S. capital markets. No CEO or CFO likes being subject to liabilities that arise out of SOX.

Smaller public companies cannot afford to comply with SOX. Few, or no, foreign companies are going to subject themselves to American jurisdiction unless they absolutely need access to American capital markets trading publicly owned securities. It is likely that Messrs. Friedman and Hayek believe most regulation is SOX-like. I do not. Some regulation is good; some bad. It's all case by case.

The goals desired by economists ought to be more balanced than they appear to be. Monetary and fiscal authorities seem focused only on maximizing periodic Gross Domestic Product ("GDP") while avoiding rampant inflation or deflation. I think their goals ought to be broadened and encompass the following:

- Maximize periodic GDP within the context of controlling inflation and deflation, while keeping the principal sectors of the economy credit-worthy. Certainly in recent years, the credit-worthiness of governments and consumers has deteriorated.
- Maximize periodic GDP within the context of controlling inflation and deflation while providing safety nets for the poorest 25%-33% of the population.
- Maximize periodic GDP within the context of controlling inflation and deflation while enhancing long-term growth of the GDP. In the 21st Century, it seems obvious that long-term growth cannot be enhanced without emphasis on the education and training of the population.

I am no fan of Milton Friedman simply because he seems not to understand the many limitations that have to be placed on free markets if an economy is to function well. Yet, I found his ideas ever so useful when I recently testified about SOX before the SEC Committee on Smaller Public Companies. I recommended to the Committee that small issuers (and also foreign domiciled issuers) be exempt from SOX, provided the issuers present comprehensive disclosures in SEC filed documents, and/or other publicly available documents, about the disadvantages and risks investors would be taking if they chose to hold securities of companies that did not comport with SOX. Given this information, the free market would appraise the merits of SOX through adjusting the prices at which specific securities would sell. Maybe the securities of non-SOX compliers would sell at materially lower prices than the securities of SOX compliers; whether or not this would be the case would be determined in a free market whose participants are well informed. This is pure Friedmanesque – University of Chicago type thinking. I also recommended to the Committee that legislation ought to be enacted under which foreign domiciled issuers could be sued for alleged violations of securities laws only in their home jurisdiction, provided such issuers fully disclosed to investors the disadvantages and risks to such investors of not being protected by U.S. regulation and U.S. class action lawsuits. In fostering these proposals, I am really proposing compromising investor protection in order to enhance the growth prospects for U.S. capital markets, especially against the background that repeal of SOX seems to be a non-starter. Admittedly, it is also true that the adoption of these two proposals would be beneficial to many of the companies whose common stocks are held in the TAVF portfolio. It would also be helpful to the Fund itself as a shareholder of many small companies and many foreign domiciled issuers. For TAVF, it is a real disadvantage that so many of the foreign securities it holds are not traded at all in U.S. markets.

SHAREHOLDER DISTRIBUTION

On December 22, 2005, a distribution of $5.48 per share was made to stockholders of record on December 21, 2005. Of this amount, $1.61 should represent ordinary income and $3.87 per share should represent long-term capital gain. A portion of the amount representing ordinary income may be treated as qualified dividend income for purposes of the 15% maximum tax rate on individuals. The information provided in this letter does not represent final tax information and, therefore, should not be used in completing your income tax returns. Information necessary to complete your income tax returns for the calendar year ending December 31, 2005 will be issued by the Fund in the early part of 2006. Shareholders, as always, have the option of receiving distributions in either cash or newly-issued shares of the Fund.

I will write you again when the report for the period to end January 31, 2006 is published. Best wishes for a Happy and Prosperous New Year.

Sincerely yours,

Martin J. Whitman
Chairman of the Board

Third Avenue Small-Cap Value Fund

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

Dear Fellow Shareholders:

At October 31, 2005, the end of the Fund's fiscal year, the audited net asset value attributable to the 77,319,265 common shares outstanding of the Third Avenue Small-Cap Value Fund ("Small-Cap Value" or the "Fund") was $24.23 per share, compared with an unaudited net asset value at July 31, 2005 of $24.47 per share and the Fund's audited net asset value of $20.81 per share at October 31, 2004, adjusted for a subsequent distribution. At December 22, 2005, the unaudited net asset value was $24.62 per share, adjusted for a distribution of $0.63 per share.

QUARTERLY ACTIVITY*

During the quarter, Small-Cap Value established five new positions, added to 25 of its existing positions, eliminated two positions and reduced its holdings in one company. At October 31, 2005, Small-Cap Value held positions in common stocks, the top 10 positions of which accounted for approximately 19% of the Fund's net assets.

Number of Shares	New Positions Acquired
405,000 shares	CNX Gas Corp. 144A Common Stock ("CNX Common")
1,058,780 shares	Haverty Furniture Companies, Inc. Common Stock ("Haverty Common")
603,100 shares	IDT Corporation, Class B, Common Stock ("IDT Common")
295,400 shares	Lexmark International, Inc. Common Stock ("Lexmark Common")
239,135 shares	Stanley Furniture Co., Inc. Common Stock, ("Stanley Common")
	Increases in Existing Positions
25,000 shares	Agrium, Inc. Common Stock ("Agrium Common")
23,200 shares	Alamo Group, Inc. Common Stock ("Alamo Common")
75,000 shares	Alico, Inc. Common Stock ("Alico Common")

* Portfolio holdings are subject to change without notice. The following is a list of Third Avenue Small-Cap Value Fund's 10 largest issuers, and the percentage of the total net assets each represented, as of October 31, 2005: Whiting Petroleum Co., 2.35%; Brookfield Asset Management, 2.28%; Sears Holding Corp., 2.05%; The St. Joe Company, 1.96%; Comstock Resources, Inc., 1.72%; Fording Canadian Coal Trust, 1.71%; Pogo Producing Co., 1.71%; Maverick Tube Corp., 1.66%; St. Mary Land and Exploration Co., 1.64%; and TimberWest Forest Corp., 1.59%.

Number of Shares	Increases in Existing Positions (continued)
75,000 shares	American Axle & Manufacturing Holdings, Inc. Common Stock (“Axle Common”)
229,800 shares	Bandag, Inc. Common Stock (“Bandag Common”)
33,100 shares	Bel Fuse, Inc. Class B Common Stock (“Bel Common”)
1,594,447 shares	Borland Software Corp. Common Stock (“Borland Common”)
5,000 shares	CommScope, Inc. Common Stock (“CommScope Common”)
311,300 shares	Comstock Resources, Inc. Common Stock (“Comstock Common”)
115,200 shares	Deltic Timber Corp. Common Stock (“Deltic Common”)
50,000 shares	Electronics for Imaging, Inc. Common Stock (“EFI Common”)
536,764 shares	GSI Group, Inc. Common Stock (“GSI Common”)
70,000 shares	Herley Industries, Inc. Common Stock (“Herley Common”)
90,000 shares	Ingram Micro, Inc. Class A Common Stock (“Ingram Common”)
113,377 shares	Jakks Pacific, Inc. Common Stock (“Jakks Common”)
256,121 shares	K-Swiss, Inc. Common Stock (“K-Swiss Common”)
25,000 shares	Lindsay Manufacturing Company Common Stock (“Lindsay Common”)
423,984 shares	Magma Design Automation, Inc. Common Stock (“Magma Common”)
427,600 shares	Maverick Tube Corporation Common Stock (“Maverick Common”)
25,000 shares	Pogo Producing Co. Common Stock (“Pogo Common”)

Number of Shares	Increases in Existing Positions (continued)
33,900 shares	St. Mary Land and Exploration Co. Common Stock (“St. Mary Common”)
18,101 shares	Synopsys, Inc. Common Stock (“Synopsys Common”)
65,000 shares	Tellabs, Inc. Common Stock (“Tellabs Common”)
153,900 shares	The St. Joe Company Common Stock (“St. Joe Common”)
470,000 shares	Timberwest Forest Corp., Stapled Unit (“Timberwest Units”)
	Position Reduced
43,346 shares	Advanced Power Technology, Inc. Common Stock (“APT Common”)
	Positions Eliminated
131,200 shares	CRT Properties, Inc. Common Stock (“CRT Common”)
133,450 shares	Wellsford Real Properties, Inc. Common Stock (“Wellsford Common”)

QUARTERLY ACTIVITY

Happily, volatility reappeared in U.S. equity markets during the Fund’s last fiscal quarter, enabling relatively large, opportunistic purchases of both existing and new positions. Fund management initiated positions in five new securities, and added substantially to a long list of existing holdings. The Fund disposed of or reduced its holdings in three securities during the quarter, sales that stemmed from “Resource Conversion” activities, including the sale of two companies in acquisitions, and the announced liquidation of a third. Realized profits, in the aggregate, were satisfactory.

The Fund continued allocating capital to its energy related holdings with its purchase of CNX Common. Shares of CNX Common were purchased in a private placement subject to Rule 144A of the Securities Act[1], meaning the shares had no public market for a period of 30 days subsequent to the deal closing on August 1, 2005. CNX has filed its Form S-1 (*i.e.*, a document required for public sale of CNX securities) with the Securities and Exchange Commission ("SEC"), and its Common Stock ought to be eligible to trade publicly once the SEC declares the filing effective. With its primary operations in the Appalachian Basin, CNX is one of the leading developers of coalbed methane ("CBM"), natural gas reserves derived from coal mining-related operations. The company, which began operations in 1982, owns the rights associated with 4.5 billion tons of coal reserves purchased from coal producer CONSOL Energy (NYSE: CNX). With oil and gas exploration and production companies finding it increasingly difficult to identify, develop and exploit conventional reserves, they may find themselves attracted to relatively low risk, long life, "unconventional" reserves like the CBM reserves owned by CNX Gas. Notably, much of the company's reserves are undeveloped, suggesting that a large portion of the company's low cost assets could be readily developed in the years ahead. Shares of CNX were purchased at a valuation that attributed little or no value to the company's unbooked reserves and other unexploited assets, and at a significant discount to the likely values that might arise were the company sold to a knowledgeable and reasonable buyer.

Clients often ask us "where do we find our ideas?" The addition during the quarter of two furniture company common stocks, Haverty Common and Stanley Common, reveals part of our answer: "in businesses that no one else seems to like." There is little question that the health of the U.S. domestic furniture industry faces a host of persistent threats, including Asian imports (*i.e.*, deflationary forces), large bankruptcies among the retail customer base, and the ever growing presence and influence of big box retailers like Wal-Mart. Nonetheless, it seems likely that both retailers, like Haverty, and manufacturers, like Stanley, will not only survive, but thrive, as the industry consolidates around the strongest players, as long-term demand for home furnishings remains relatively firm, and as the industry optimizes its use of offshore manufacturing. Both companies have strong long-term track records (e.g., per share profitability and cash generation), and appear to be conservatively managed. Shares of each company were purchased at modest premiums to GAAP book value, and at reasonable multiples of normalized, longer-term cash flow and earnings.

Mirroring Fund Management's inclination to buy into out-of-favor industries like furniture, shares of Lexmark International were purchased opportunistically subsequent to an October announcement by company management that it expected a weak sales and profit outlook in coming periods, and a concomitant decline of nearly 30% in the price of the company's common stock. The company, best known for its computer printers and related products, possesses a fortress-like balance sheet and enjoys a highly cash generative business model. Significant near-term competitive pressures notwithstanding, Lexmark appears to hold a commanding market position, bolstered by a large installed base of equipment. Lexmark Common was purchased at single-digit multiples of Fund Management's estimate of current free cash flow. Lexmark, whose roots as an independent company trace back to an early 1990's Leveraged Buyout ("LBO") from IBM, continues to evidence many of the characteristics that either a strategic or a financial buyer (*e.g.*, private equity or LBO firm) might find attractive.

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[1] Securities Act of 1933, as amended.

Trading near multi-year lows, IDT Common would also seem to reside in the market's "penalty box." Weak corporate governance, controversial business strategies, and heightened competitive and regulatory pressures have created an almost poisonous mix for shares of the company best known for its telecommunications service offerings. Nonetheless, IDT's highly liquid balance sheet — whose cash and equivalents equate to roughly 75% of the company's market capitalization – should serve as an excellent platform for management who appears to be focused on building longer-term value in a number of potentially interesting business ventures.

RESULTS AND PERFORMANCE

> *"Lenin is said to have declared that the best way to destroy the capitalist system was to debauch the currency. By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens . . . Lenin was certainly right."*[2]

With 13 straight interest rate increases by the Federal Reserve during the past 18 months, and real interest rates turning modestly positive for the first time in a while, it looks like our government policy makers finally appreciate what business people and consumers have recognized for years now: that the insidious creep of inflation has eroded many aspects of our fiscal health. Mindful that the monetary folks in Washington occasionally miscalculate, my energies as a fund manager are geared most heavily toward producing results measured in absolute, after-tax terms, with a primary focus on beating inflation — however measured — by a wide margin, while minimizing investment risk. Consider that, in inflation adjusted dollars, the total return of the S&P 500 Index over the last seven years is flat.[3]

That said, what is happening with respect to other asset classes (*i.e.*, relative performance) ought to be given some weight, particularly on a longer-term basis. With these concepts in mind, I have prepared the table below, comparing the Fund's results with a number of indices and inflation measures that I consider relevant in thinking about the Fund's performance.

The table below compares cumulative returns during the most recent three-year period. For example, $100 invested in each of the Fund and the S&P 500, on October 31, 2002, would be worth $192.00 and $143.71 (pre-tax and with dividends reinvested), respectively, at October 31, 2005. For individual investors trying to save for educational or retirement needs, or for institutional clients trying to meet obligations likely to come due many years hence, I continue to believe that a three to five year time frame is a reasonable period over which one might judge a manager's results.

THREE-YEAR TOTAL RETURN COMPARATIVE

Asset / Inflation Measure[4]	October 31, 2002	October 31, 2005
Third Avenue Small-Cap Value	100.00	192.00
S&P 500 Index	100.00	143.71
Russell 2000 Index	100.00	179.53
Consumer Price Index (CPI)	100.00	109.87
CPI – Beer	100.00	106.00
CPI – Housing	100.00	109.36
CPI – Education	100.00	121.06

[2] John Maynard Keynes, *Essay in Persuasian,* (1931)
[3] *Grant's Interest Rate Observer*, December 2, 2005.
[4] The S&P 500 Index is an unmanaged index (with no defined investment objective) of common stocks. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index. The Consumer Price Index (CPI) is a measure of the average change in prices over time of goods and services purchased by households. The S&P 500 Index, Russell 2000 Index, and the Consumer Price Index are not securities that can be purchased or sold, and their total returns are reflective of unmanaged portfolios. The returns include reinvestment of interest, capital gains and dividends. Please see the accompanying Annual Report for performance figures for the Fund over different periods of time. Past performance is no guarantee of future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost.

The Fund's results during the past three years, which equate to an annualized return of 24.3%, are gratifying in that they have been achieved, I believe, without assuming outsized investment risks, and without the benefit of leverage. (Indeed, the Fund's abnormally large cash position during much of this period, lauded by some and loathed by others, has been an anchor in the multi-year bull market for small company equities). Suffice it to say, these types of results are not sustainable, and partly reflect the very depressed market conditions of late 2002, conditions distinctly different from today's environment. The Fund's investment in Kmart Common, which appreciated more than 31% during the past twelve months, along with the Fund's investments in energy and real estate-related securities made significant positive contributions to the Fund's performance. Offsetting those positive contributions were meaningful, and in some cases dizzying, depreciation in names like Superior Industries, an automotive aluminum wheel manufacturer under intense competitive pressure; Montpelier Re and Olympus Re, two Bermuda-based re-insurers devastated by this year's hurricane losses; and Russ Berrie, a developer of gift products for retailers in the throes of a difficult business transition.

"Our belief is that, as value investors, we have 'two ways to win.' The first, of course, is public market appreciation, which occurs when the general market revalues upward the securities that the Fund owns. The second, and more relevant for us, is private market realizations, or what we at Third Avenue term 'Resource Conversion.'"

LOOKING FORWARD TO 2006

I was asked recently by a Fund shareholder "What's your view of the market?" I tried not to roll my eyes, and modestly responded "We don't have a clue, nor do we care about the general market." Why? First, like any sensible business-person, we try to distance ourselves from those activities that are inherently competitive and unpredictable. More importantly, perhaps, is that our results over longer periods of time do not depend on what happens to the securities that comprise "the market." Our belief is that, as value investors, we have "two ways to win." The first, of course, is public market appreciation, which occurs when the general market revalues upward the securities that the Fund owns. The second, and more relevant for us, is private market realizations, or what we at Third Avenue term "Resource Conversion." That is, when the public markets do not, for whatever reason, reflect the business value in the securities we own, often times the management of the company or private buyers do, and act on the discrepancy to close the gap between the public market price and the value of the underlying assets. Historically, Resource Conversion has been an important positive component of the Fund's performance, as was particularly true in 2005. Resource Conversion can take any number of forms, including mergers and acquisitions, management buyouts, re-financings, recapitalizations, spin-offs, liquidations, tender offers, special dividends and reorganizations in or out of bankruptcy. Some notable examples from the Fund's portfolio in 2005 are noted in the table below.

Fund Holding	Resource Conversion
Ascential Software, Inc.	Sale of company to IBM
Brookfield Asset Management	Sale of interest in Noranda/Falconbridge
CRT Properties, Inc.	Sale of company to private investment group
Comstock Resources, Inc.	IPO of Bois D'Arc Energy interest
Hollywood Entertainment, Inc.	Sale of company to Movie Gallery, Inc.
Kmart	Merger with Sears, Inc.
Montpelier Re, Ltd.	Special dividend
Precision Drilling Corporation	Bulk sale of assets / special dividend
Whiting Petroleum Corp.	Bulk purchase of oil and gas assets

SHAREHOLDER DISTRIBUTION

On December 22, 2005, a distribution of $0.63 per share was made to shareholders of record as of December 21, 2005. Of this amount, $0.30 should represent ordinary income, $0.10 should represent short-term capital gain which would be taxed as ordinary income, and $0.23 should represent long-term capital gain. All or a portion of the amount representing ordinary income (including short-term capital gain) may be treated as qualified dividend income for purposes of the 15% maximum tax rate on individuals. The information provided in this letter does not represent final tax information and, therefore, should not be used in completing your income tax returns. Information necessary to complete your income tax returns for the calendar year ending December 31, 2005 will be issued by the Fund in the early part of 2006. Shareholders, as always, have the option of receiving distributions either in cash or in newly-issued shares of the Fund.

I look forward to writing you again in the New Year when we publish our First Quarter report dated January 31, 2006. May you and your families enjoy a healthy and prosperous New Year.

Sincerely,

Curtis R. Jensen

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

Third Avenue Real Estate Value Fund

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

Dear Fellow Shareholders:

I am pleased to provide you with Third Avenue Real Estate Value Fund's (the "Fund") report for the fiscal year ended October 31, 2005. This report marks the Fund's seventh full year of operation since its inception on September 17, 1998. Once again, I am pleased with the Fund's absolute performance over the last twelve months and, more importantly, over the past seven years. The Fund's one-year return was 17.4%, compared to the 20.9% return of the Dow Jones Wilshire Real Estate Securities Index and the 8.7% return of the S&P 500 Index. The Fund's total return from its inception through October 31, 2005 was 250%, outperforming the 196% return of the Dow Jones Wilshire Real Estate Securities Index and the 31% return of the S&P 500 Index.[1]

At October 31, 2005, the audited net asset value attributable to the 97,702,927 shares outstanding was $29.41 per share. This compares with the Fund's unaudited net asset value of $30.26 per share at July 31, 2005, and an audited net asset value, adjusted for subsequent distributions to shareholders, of $25.03 per share at October 31, 2004. At December 22, 2005, the unaudited net asset value was $29.33 per share, adjusted for a distribution of $1.48 per share.

QUARTERLY ACTIVITY*

As noted in last quarter's shareholder letter, effective July 1, 2005, the Fund is closed to new investors. Existing investors are still able to purchase shares in the Fund through existing accounts. During the fourth quarter of fiscal 2005, the Fund's outstanding shares decreased to 97.7 million shares from 100.8 million shares — a decrease of 3.1%; net assets decreased to $2.87 billion from $3.05 billion — a decrease of 5.9%; and net asset value per share decreased to $29.41 from $30.26 — a decrease of 2.8%. Net cash and short-term investments at quarter-end totaled 15.8% of net assets, compared to 23.8% at the end of the last fiscal quarter.

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

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* Portfolio holdings are subject to change without notice. The following is a list of Third Avenue Real Estate Value Fund's 10 largest issuers, and the percentage of the total net assets each represented, as of October 31, 2005: The St. Joe Company, 10.07%; Forest City Enterprises, Inc., 9.30%; ProLogis, 8.74%; Brookfield Asset Management, 6.38%; Vornado Realty Trust, 4.22%; PS Business Parks, Inc., 3.24%; Brookfield Properties Corp., 2.80%; Sears Holding Corp., 2.23%; British Land Company, 2.22%; and Fairmont Hotels & Resorts, Inc., 2.13%.

[1] The Dow JonesWilshire Real Estate Securities Index is a broad measure of the performance of publicly traded real estate securities, such as Real Estate Investment Trusts (REITs) and Real Estate Operating Companies (REOCs), and is capitalization weighted. The S&P 500 Index is an unmanaged index (with no defined investment objective) of common stocks. The Dow JonesWilshire Real Estate Securities Index and the S&P 500 Index are not securities that can be purchased or sold, and their total returns are reflective of unmanaged portfolios. The returns include reinvestment of interest, capital gains and dividends. Please see the accompanying Annual Report for performance figures for the Fund over different periods of time. Past performance is no guarantee of future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost.

Number of Shares	New Positions Acquired
6,500,000 shares	Hong Kong Land Holdings, Ltd. Common Stock ("Hong Kong Land Common")
24,900 shares	Minerva plc Common Stock ("Minerva Common")
	Increases in Existing Positions
428,700 shares	Acadia Realty Trust Common Stock ("Acadia Common")
109,400 shares	Affordable Residential Communities, Inc. Common Stock ("Affordable Common")
42,850 shares	American Land Lease, Inc. Common Stock ("American Land Common")
392,400 shares	British Land Company plc Common Stock ("British Land Common")
312,700 shares	Brookfield Properties Corp. Common Stock ("Brookfield Common")
748,250 shares	Capital Lease Funding, Inc. Common Stock ("Capital Lease Common")
488,100 shares	Columbia Equity Trust, Inc. Common Stock ("Columbia Common")
85,450 shares	CRIIMI MAE, Inc. Common Stock ("CRIIMI MAE Common")
138,544 shares	Derwent Valley Holdings plc Common Stock ("Derwent Common")
132,000 shares	Fairmont Hotels & Resorts, Inc. Common Stock ("Fairmont Common")
381,200 shares	Forest City Enterprises, Inc. Class A Common Shares ("Forest City Common")
16,339,000 shares	Hang Lung Properties, Ltd. Common Stock ("Hang Lung Common")
400,000 shares	Henderson Land Development Co., Ltd. Common Stock ("Henderson Common")

Number of Shares or Principal Amount	Increases in Existing Positions (continued)
1,054,700 shares	JER Investors Trust, Inc. Common Stock ("JER Common")
613,730 shares	Liberty International plc Common Stock ("Liberty Common")
7,334,000 shares	Midland Realty Holdings, Ltd. Common Stock ("Midland Common")
3,339,890 shares	ProLogis Common Stock ("ProLogis Common")
250,000 shares	PS Business Parks, Inc. Common Stock ("PSB Common")
528,320 shares	Quintain Estates & Development plc Common Stock ("Quintain Common")
455,500 shares	RAIT Investment Trust Common Stock ("RAIT Common")
8,681,000 shares	Tai Cheung Holdings, Ltd. Common Stock ("Tai Cheung Common")
1,358,161 shares	The St. Joe Company Common Stock ("St. Joe Common")
	Decrease in Existing Position
450,700 shares	Associated Estates Realty, Inc. Common Stock ("Associated Common")
	Positions Eliminated
25,571 shares	CareMatrix Corp. Common Stock ("CareMatrix Common")
5,598,649 shares	Catellus Development Corp. Common Stock ("Catellus Common")
408,600 shares	CRT Properties Inc. Common Stock ("CRT Common")
56,000 shares	CRT Properties Inc. 8.5% Preferred Stock ("CRT Preferred")
$523,563	Frank's Nursery & Crafts, Inc. Trade Claims ("Frank's Trade Claims")
322,050 shares	Wellsford Real Properties Inc. Common Stock ("Wellsford Common")

DISCUSSION OF QUARTERLY ACTIVITY

During the quarter, the Fund continued to increase its investments in the common stocks of non-North American real estate companies. At October 31, 2005, 13.3% of the Fund's assets were invested in the common stocks of non-North American companies, including 8.5% in the United Kingdom, 3.2% in Hong Kong, and 1.0% in Australia. Approximately 30% of the Fund's investments made during the quarter were in the common stocks of companies in the United Kingdom (10%) and Hong Kong (20%). The substantial increase in foreign investments is due to our ability to find extremely well-financed real estate companies whose common stocks are trading at significant discounts to net asset value. Fund management's real estate team recently returned from a one-week due diligence trip to Hong Kong that included meetings with senior management of several companies, property consultants, analysts and brokers, as well as property tours. In general, we were very impressed with the quality of the management teams, their understanding of their respective markets, their conservative, long-term investment focus and non-promotional demeanor. We were also very impressed with the high quality of the properties, the favorable market dynamics and high barriers to entry in the Hong Kong market.

The Fund initiated a new position in Hong Kong Land Common. Hong Kong Land owns a high-quality portfolio of investment real estate, including 5 million square feet of office space, 680,000 square feet of retail space and 137 hotel rooms. 90% of the company's properties are located in Central Hong Kong. Hong Kong Land was formed in 1880, and until 1992, it held a 100% market share for office properties in Central Hong Kong. Its current market share is 35%. Due to its early entry into the market, Hong Kong Land is one of only two companies that own properties on land leased for 999 years — essentially freehold ownership. The majority of land in Hong Kong is owned by the government and leased for 49 to 99 years. The long-term leases enable Hong Kong Land to change uses on the land without additional compensation to the government. Hong Kong Land maintains a very solid balance sheet, with only 26% debt-to-assets. Hong Kong Land Common is trading at a discount to net asset value, which, based upon the current market conditions, should continue to increase as market rents and occupancy levels increase. The Hong Kong office market is very strong, and there is very little new product coming on line over the next three years. The Fund also made substantial additions to Hang Lung Common, Tai Cheung Common and Midland Common, after meeting with senior management of those companies. The Fund took advantage of market conditions during the quarter by substantially adding to its U.K. holdings (British Land Common, Derwent Common, Liberty Common and Quintain Common) and North American holdings (Acadia Common, Brookfield Common, Forest City Common, JER Common, PSB Common, RAIT Common and St. Joe Common).

As noted in last quarter's shareholder letter, the Fund completed its disposition of CRT Common and CRT Preferred. I received a lot of positive feedback on my explanation regarding the risks of investing in REIT preferred stocks. I suppose I do my best work when I am angry. As a reminder, if you have inadvertently thrown away all of your previous shareholder letters, they are available at www.thirdavenuefunds.com. Other holdings that were eliminated from the Fund during the quarter included CareMatrix Common, Catellus Common, Frank's Trade Claims and Wellsford Common. CareMatrix was a small position that started as an investment in the senior unsecured notes in an owner of assisted living facilities, at distressed prices. The company filed Chapter 11 bankruptcy in November 2000 and emerged as a reorganized company in January 2002. The

Fund received CareMatrix Common in exchange for its unsecured notes, pursuant to the plan of reorganization. Unfortunately, the company was woefully undercapitalized when it emerged from bankruptcy and was unable to properly maintain and operate its remaining facilities. The Fund had been carrying CareMatrix Common at zero value since April 28, 2003 and sold it for a nominal amount to take the tax loss in the current year. Catellus was acquired by ProLogis. The Fund received total consideration valued at $35.54 per share (approximately 32.4% in cash and 72.6% in ProLogis Common). The Fund began acquiring Catellus Common in 1998, and it had historically been one of the Fund's largest holdings. The Fund's average cost basis on Catellus Common was $24.32 per share. The Fund's annualized return in Catellus Common was approximately 32.5%. Wellsford Common was also a long-term holding, but one that never produced satisfactory results. Wellsford is a real estate operating company that owned a portfolio of suburban office properties (through a joint venture), developed multifamily properties and made high-yield real estate loans. The company recently decided to do an orderly liquidation and estimated total distributions of $18 to $20.50 per share over a one to two year liquidation period, including a $12 to $14 per share initial distribution upon approval by stockholders. As part of the liquidation plan, the company intended to de-list its common stock from the American Stock Exchange. Fund management decided the best course was to sell its position in Wellsford Common at an average price of $17.18, instead of holding an unlisted security that would be difficult to value. The Fund's average cost basis in Wellsford Common was $19.13 per share.

THE VALUE CONFERENCE

On November 3rd, Third Avenue Management hosted The Value Conference in New York City. It was my honor to moderate this year's keynote panel, which focused on real estate and featured Martin Whitman, Founder and Co-Chief Investment Officer of Third Avenue Management and Portfolio Manager of Third Avenue Value Fund; Charles Ratner, President and CEO of Forest City Enterprises; Milton Cooper, Chairman and CEO of Kimco Realty; and Sam Zell, Chairman of Equity Office Properties and Equity Residential Properties. Messrs. Ratner, Cooper and Zell are all real estate executives whose insight and efforts led to the tremendous growth in the market for publicly-traded real estate companies, enabling individual investors to own institutional quality real estate through common stocks. The following are excerpts of some of the questions and answers. I hope you find the insightful comments from these four legendary investors as useful and timely as did I and the other guests.

Michael Winer: Marty, the last five years we've done very well investing in common stocks of real estate companies — roughly 20% average per year. You and I agree that the next five years will probably not be as good as the last five. Is that a reason to sell?

Martin Whitman: No. That's not what we do. First of all, whatever I predict for the next five years, I'm sure is going to be wrong. We're long-term buy and hold investors. We don't buy or sell based on near-term outlooks or cyclical problems. Forest City in particular, and most of our investments, none of them seem to be much overpriced, if at all. In our scheme of investing, it may very well be that the next five years won't be as good as the last five years. That's no reason for us to sell. Rather, it's a reason for us to average down in the event the market gets pessimistic about companies that are extremely well-financed and well-managed.

Michael Winer: Milton and Chuck, both of you have been saying for a few years now that there are clouds on the horizon for U.S. real estate and the U.S. economy. However, inflation seems to be under control; GDP continues to grow at decent rates; the unemployment rate is down and job growth is widespread; retail sales continue to grow; the capital markets are in full swing; corporate profits, production levels and capacity utilization are up; and housing inventories remain low. So what are those clouds on the horizon?

Milton Cooper: I said there were clouds on the horizon — I didn't say it was going to rain. The clouds that worry me a little, first, the consumer is going to have a $1,000 to $1,500 increase in their oil bills. They are stretched pretty thin. If interest rates move, as interest rates rise, that is generally not good news for any common stock. What we will try to do is 1) build a management business which has been growing and becoming a larger portion of our business, so we're not dependent upon purely investing in real estate at this point in the cycle; and 2) continue to be ready, staffing wise, if there is distress in retail. That's always been a good business for us. Those are the two major initiatives.

Michael Winer: More like the Brascan model? More assets under management and less assets on the balance sheet?

Milton Cooper: At this point in the cycle. But that can change.

Charles Ratner: Milton said it right. Look, I'm the son of a Jewish immigrant from Poland. Of course I see clouds. I see a black lining in every silver cloud. But you can't be a real estate developer and really believe that. Overall, I'm very optimistic. This is the best place on earth to do business. The population is going to continue to grow with very robust numbers — 90 million over the next thirty years — and the real estate industry is going to be in a great position to capitalize on this. But I think in terms of the cycles, you always get concerned when you've been on a ten-year run. I've been in this business for forty years, and this is an unprecedented good time. And you worry always when that happens that there's something on the other end. The problem for us, maybe a little distinct from Milton and Sam, is that we're developers as opposed to acquirers. When you do that, you're dealing with these larger projects and the time horizons are very long. So you have to believe that things are going to be good for the long run. You certainly can't try to time the cycles and get in and get out when the cycles are right. If you're involved in a ten-year project in Denver or Brooklyn, you're going to have good times and bad times. You have to believe that your real estate is good, it's well positioned, the product is required, demand will sustain itself, and then you go.

Michael Winer: Real estate cap rates are at near-historical lows. Obviously lower interest rates have had a lot to do with lower cap rates. But the risk premium, or the spread over Treasuries, is lower too. What are some other factors contributing to the acceptance of lower yields on real estate? Has real estate investing become less risky, or are investors misunderstanding the risks?

Sam Zell: The accurate answer to your question is much more of a macro answer. If you think about the world as being two piles — the liquidity pile and the illiquid pile — both assets. Every now and then the liquidity goes down and we have a credit crunch. Where we are today is just the opposite — the liquidity is in excess and out of scale to the asset base. What that means is, if we went to school and were taught that the rate of return is 300 basis points over the risk-free rate — that assumes that there's equilibrium in existence. In a period of disequilibrium, such as we have now, I think that 300 basis points is going to be one and a half over — or maybe less. The most important thing to remember is that this condition stays no matter what happens to interest rates. Relatively speaking, the spread will be compressed and the only way we're going to break the spread back to normal is growth. And so I think we're looking at a five-to-seven year period of time where spreads will be below normal because the supply of liquid currency is way above normal.

Michael Winer: So it's not that the actual risk of owning real estate is lower than before? It's more supply and demand?

Sam Zell: Well, the last time I checked, everything is supply and demand — and real estate has historically operated on supply and demand. If you take that one step further and talk about the supply of cash — Saudi Arabia today has $350 [billion] more to invest than it did one year ago. So it has, in effect, monetized and created currency out of liquid gold to the tune of $350 [billion] today. So, the cash is piling up, and the assets that the cash can invest in ain't growing at the same rate.

Milton Cooper: In addition to the cash growing, the percentage that's allocable to real estate is increasing because fifteen years ago the percentage that most investors would've had in bluechip stocks would have been much higher and they're finding that trophy companies have had trophy losses — so that percentage of the liquidity for real estate, based on the performance, based on what's happened, has increased.

Sam Zell: Look at the impact that the real estate companies becoming part of the S&P 500 has had. That means that overnight, real estate is a part of everybody's benchmark. In the early nineties, Milton will tell you this, we used to call on the big funds, and they'd say, "Oh, we don't do real estate." Not, "Hello, how are you? We just don't do real estate." That's about how much respect you got when you called.

Charles Ratner: These two guys have created what we just talked about. We went public in 1960. It was a lonely world for thirty years. But I do think we've taken an outsized proportion of this excess liquidity and I think that's what might be in jeopardy. It seems to me that every bank I meet with, real estate is their best performing asset category. Why? Because there's been so little default. They almost forgot that there can be default in real estate. My sense is, as things get back to normal, we will get a lesser share of that capital as it goes back into the conventional stock market. Consequently, I think there will be some pressure [on cap rates]. I don't think you'll see the long bond at 6.5%, mortgage financing at 7.5% and cap rates at 4% and 5%.

"At certain times, real estate is cheaper on Wall Street than it is on Main Street. In other words, it's cheaper to buy real estate by buying the common stock of a publicly-traded real estate company."

Martin Whitman: I think bank lending has never been sounder and real estate secured lending has never been sounder, and we're not going back to the early 1990's. And I say, thank you Michael Milken. There's a whole new class of investors who now take the risk that the secured lenders used to take.

Michael Winer: At certain times, real estate is cheaper on Wall Street than it is on Main Street. In other words, it's cheaper to buy real estate by buying the common stock of a publicly-traded real estate company. Many investors argue that real estate company common stocks should trade at a premium to underlying net asset value. What do you think?

Martin Whitman: Stocks certainly should trade at discount. They approximated underlying asset value in 1998, and again today. Normally, real estate securities are a cheaper way to buy real estate rather than buying it directly. And that's as it should be. Number one, in real estate securities, there's no control. Two, there's no ability to get non-recourse financing for a great part of your costs, and thirdly, there's no tax attributes to owning securities. All of which add important elements of value to being a direct real estate owner. I will admit that as someone owning securities, we get marketability, liquidity and size of investment… you can just invest a few thousand dollars. But in general, for the reasons I've mentioned, I really think that in the normal course of events, a real efficiency would indicate that real estate securities ought to be cheaper than real estate.

Michael Winer: Even in companies like Forest City, Kimco and the Equity companies where you get brilliant management teams that clearly add franchise value and going-concern value?

Martin Whitman: What about protecting our stockholders? No, you're right. If at asset value, you add a going-concern factor, clearly, that I know, Forest City and Kimco are selling at discounts…if you capitalize the ability of management. That's not what we do. I guess I was talking provincially from our point of view that discounts from underlying value sort of shifts the probability to our side in an uncertain world, and I just as soon keep it that way if we could.

Milton Cooper: What REITs have done is the democratization of the ownership of real estate. Thousands and thousands of people can't own buildings, buy title reports, worry about the environmental issues…so that it's not a true option for so many investors. All that a REIT is is a common stock that has to comply with certain provisions of the tax code. Management's objective is to do the same things that will create value in any common stock - to consistently, over time, create value and get growth in earnings. At this point, REITs also, by virtue of the REIT Modernization Act, have a blank canvas to do much more than real estate. In measuring a common stock you look at the ability to grow and how values are created. And on that test, multiples are very low, relative to the rest of corporate America, on a risk-adjusted basis.

Michael Winer: Chuck, as a real estate operating company, your business model is quite different than most REITs. For many years now, Third Avenue has been a proponent of real estate operating companies because of their ability to reinvest cash flow and not be forced to pay out dividends. How do you see Forest City being so much different than Kimco or Equity Office in today's day and age with the REIT Modernization Act and with the REITs' access to capital and ability to do different things?

Charles Ratner: Michael, I've been CEO for ten years, and this is the toughest forum to answer that question. If there are two hundred publicly traded real estate companies — there are 193 REITs and six people like us. Now you either have to be arrogant or stupid to believe that you have the right answer. You've got these guys like Kimco and Zell and who am I to say I've got a better answer? I don't think it's a question of one or the other. This is right for us. There are two basic ingredients to it that differentiate us somewhat. One is that we create value by developing real estate. We're not great buyers. We've bought and we've sold. But we believe that the greatest value you add is when you take four thousand acres in Denver and figure out what it can be, and you look ten years later and you've got a whole city. As a real estate developer I think it's difficult to have a billion dollars on the balance sheet earning no current return and pay dividends to your shareholders. So, clearly in order to do this, you have to find a somewhat differentiated model. The other part of it is the way you use leverage. They [Kimco and Equity Office / Equity Residential] are investment-grade; we are not. They pay less for recourse debt than we pay. But we use a lot more non-recourse mortgage debt. The marketplace allows us to do that. It punishes you on one price and benefits you on the other. As long as that debt is non-recourse, that's a very safe balance sheet…perhaps a safer balance sheet. Nothing can take the company and no one asset is tied to another asset. Recourse debt on our balance sheet is very de minimus, and the total cost of capital, which derives your profits in this business…the spread between your return on costs and your cost of capital…you drive down your cost of capital by doing that.

Martin Whitman: The Forest City model is better for Third Avenue than the REIT model. That doesn't go for all investors. We are long-term buy and hold, interested in total return, and we have no need for cash return. I would say, from an investor's point of view, probably the majority of investors are unlike us. They're looking for cash return, and for them the REIT model is better. The one thing I would say is I wouldn't rely too heavily on access to capital markets because that is always capricious. You don't know that you can go to the capital markets at a reasonable price at any given time.

Michael Winer: Ten years ago, REITs were pretty one-dimensional. Their access to capital was primarily the public market. It's a lot different today. Many REITs are shrinking their capital base, bringing in private capital with institutional partners and leveraging their current capital. So REITs don't seem nearly as dependent upon public capital markets today.

Sam Zell: No question that growth of REIT markets from 1992 to today has made the large REITs very attractive joint venture partners. The multiple accesses to capital is recognition of the successes we've had at creating credibility. Nobody on this panel has mentioned that prior to 1992, with the exception of Forest City, the rest of the real estate public company world left a lot to be desired. The reality is that not only did the whole world [for real estate companies] change in 1992, but think about it…real estate guys are the poster boys for good corporate governance? That's almost embarrassing.

Michael Winer: When the U.S. real estate markets started recovering in the mid 1990s, dozens of private real estate companies went public as REITs. Today, the vast majority of institutional quality real estate in the United States is still privately owned, where in countries like Australia, the number is closer to 75%. Why haven't more real estate companies in the United States come public?

Sam Zell: Sarbanes-Oxley.

Martin Whitman: Boy, are you right about that.

Sam Zell: A number of the public companies that have been bought out this year are those who had just said, "Hey, it's not worth it." It's certainly not worth it unless you have serious scale and unless you're using your public platform to your advantage, whether it be access to capital, etc. at lower rates, or whatever the case may be.

Question from Audience: To what extent are the REITs today highly leveraged and to what extent is the leverage floating rate versus fixed rate, recognizing that the asset side is very illiquid?

Sam Zell: Are you pontificating that the asset side is very illiquid? Because that is certainly not the current experience. There probably has never been a better time in history to sell any kind of real estate you want, and sell it fast and for all cash. In the area of floating rate versus fixed, I think the REITs are generally all over the block. General Growth [NYSE: GGP] made a pretty big floating rate when they bought Rouse. But most of the REITs are in the ten to fifteen percent floating rate, and the rest fixed rate. Generally speaking, I think that REITs are underleveraged, and that long term, the REIT industry is going to have to be much more leveraged in order to produce returns that will allow the REITs, as Milton said, to be stocks. I think that we needed to start as we did with very low leverage because we had a lot to overcome as an industry. But going forward, if you look at a major real estate company and say it's 45% leveraged, that just doesn't make sense anymore, and I think we're going to see a general trend within the whole industry towards higher levels of leverage, and thereby being able to produce better growth rates and better returns.

Charles Ratner: I don't think that the business, even in our configuration, is overleveraged. Leverage, if appropriately used, is a good thing in real estate. It's always been a value driver in real estate. That hasn't changed.

Sam Zell: By the way, one of the things that the analytical community does not understand is that the REIT industry has, over the last four years, almost completely refinanced at almost 300 basis points lower for an average of ten years. The impact of fixed rate debt in place at 6% or less for the next ten years as it impacts real estate portfolios is going to be a sight to see.

SHAREHOLDER DISTRIBUTIONS

On December 22, 2005, a distribution of $1.48 per share was made to shareholders of record on December 21, 2005. Of this amount, $0.45 should represent ordinary income, $0.26 should represent short-term capital gain which would be taxed as ordinary income, and $0.77 should represent long-term capital gain. A portion of the amount representing ordinary income (including short-term capital gain) may be treated as qualified dividend income for purposes of the 15% maximum tax rate on individuals. The information provided in this letter does not represent final tax information and, therefore, should not be used in completing your income tax returns. Information necessary to complete your income tax returns for the calendar year ending December 31, 2005 will be issued by the Fund in the early part of 2006. Shareholders, as always, have the option of receiving distributions either in cash or in newly-issued common shares of the Fund.

I look forward to writing to you again when we publish our quarterly report for the period ending January 31, 2006. Best wishes for a safe, healthy and prosperous New Year.

Sincerely,

Michael H. Winer
Portfolio Manager,
Third Avenue Real Estate Value Fund

Third Avenue International Value Fund

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

Dear Fellow Shareholders:

At October 31, 2005, the audited net asset value attributable to the 94,865,602 common shares outstanding of the Third Avenue International Value Fund (the "Fund") was $20.40 per share, compared with an unaudited net asset value at July 31, 2005 of $20.23 per share and an audited net asset value at October 31, 2004 of $16.95 per share, adjusted for a subsequent distribution. At December 22, 2005, the unaudited net asset value was $20.95 per share, adjusted for a distribution of $0.56 per share.

QUARTERLY ACTIVITY*:

In the most recent quarter of operations, the Fund established new positions in the common stocks of three companies, added to positions in the common stocks of 22 companies and reduced its holdings in two companies.

Number of Shares	New Positions Acquired
4,138,100 shares	Siem Offshore, Inc. Common ("Siem Offshore Common")
392,000 shares	Tokyo Energy & Systems, Inc. Common ("Tokyo Ensys Common")
6,523,000 shares	UOB-Kay Hian Holdings, Ltd. Common ("UOBK Common")

Number of Shares	Increases in Existing Positions
32,258,758 shares	BIL International, Ltd. Common ("BIL Common")
481,000 shares	Boardroom Ltd. Common ("Boardroom Common")
863,397 shares	BRIT Insurance Holdings plc Common ("BRIT Common")
500,000 shares	Canfor Corporation Common ("Canfor Common")
51,021 shares	Cie Nationale a Portefeuille SA Common ("CNP Common")
15,211,000 shares	Del Monte Pacific, Ltd. Common ("Del Monte Common")
2,232 shares	Dundee Precious Metals, Inc. Common ("Dundee Common")
131,800 shares	Fujitsu Business Systems, Ltd. Common ("Fujitsu BS Common")
777,800 shares	Futaba Corporation Common ("Futaba Common")
1,642,300 shares	GEAC Computer Corporation, Ltd. Common ("GEAC Common")
2,212,000 shares	Guoco Group, Ltd. Common ("Guoco Common")
11,068,000 shares	Hotung Investment Holdings, Ltd. Common ("Hotung Common)

* Portfolio holdings are subject to change without notice. The following is a list of Third Avenue International Value Fund's 10 largest issuers, and the percentage of the total net assets each represented, as of October 31, 2005: BIL International, Ltd., 4.07%; Hutchison Whampoa, 2.70%; Guoco Group Ltd., 2.66%; Overseas Union Enterprise Ltd., 2.56%; Toll NZ Ltd., 2.50%; Aker Kvaerner ASA, 2.39%; Subsea 7 Inc., 2.29%; Nippon Sheet Glass Co., Ltd., 2.24%; Zinifex Ltd., 2.21%; and Skandia Forsakrings, 2.16%.

Number of Shares	Increases in Existing Positions (continued)
2,864,000 shares	Liu Chong Hing Investment, Ltd. Common ("LCHI Common")
135,400 shares	Nichicon Corp. Common ("Nichicon Common")
8,765,980 shares	Nippon Sheet Glass Co., Ltd. Common ("NSG Common")
2,849,000 shares	Overseas Union Enterprise, Ltd. Common ("OUE Common")
15,646,772 shares	Rubicon Ltd. Common ("Rubicon Common")
2,301,100 shares	Skandia Forsakrings AB Common ("Skandia Common")
769,296 shares	Telecom Corp. of New Zealand, Ltd. Common ("Telecom Common")
107,200 shares	United International Enterprises, Ltd. Common ("UIE Common")
5,118,000 shares	Vitasoy International Holdings, Ltd. Common ("Vitasoy Common")
5,967,000 shares	WBL Corp., Ltd. Common ("WBL Common")

Number of shares	Positions Reduced
8,625,000 shares	Chuan Hup Holdings, Ltd. Common ("Chuan Hup Common")
78,115 shares	Ganger Rolf ASA Common ("Ganger Common")

REVIEW OF QUARTERLY ACTIVITY

Siem Offshore Common was received through a spinoff of the non-core marine activities by its parent Subsea 7 Inc. (which is held in the portfolio). The company intends to focus its attention on subsea construction contracting activities.

Tokyo Energy & Systems Inc. ("Tokyo Ensys"), *inter alia,* installs electricity generation equipment, performs maintenance at power plants and installs electric systems including air conditioning systems. The principal customer for Tokyo Ensys' services is Tokyo Electric Power Co. ("TEPCO"), one of the world's largest utilities serving metropolitan Tokyo and the surrounding areas. Capital expenditure for the Japanese electricity industry peaked in 1993, following the power shortages of 1991-1992. Since then, capital expenditures by electrical utilities have declined relentlessly for over a decade, reflecting two factors—the stagnation of the Japanese economy, and secondly, fears that the progressive liberalization of the industry, which started in 1996, would attract new capacity to the industry.

Curiously enough, TEPCO continues to plan its capital expenditure based upon a continuation of the economic stagnation, with electricity demand in the 2005-2014 period projected to grow at rates which lie even below those during 1990-2003, a period of relatively muted economic activity in that country. The second factor, which held back the capital spending, liberalization, appears not to have attracted much new capacity into the industry.

This continuing reluctance to spend, combined with the tremendously capital intensive nature of the utility business, suggests increased future demand for Tokyo Ensys' services. The timing of such increase is, of course, an imponderable. The company is exceptionally well capitalized, and could comfortably survive long periods of adversity. Our position was initiated at a discount to book value.

UOB-Kay Hian Holdings Ltd. ("UOBKH") is the largest retail brokerage in Singapore, with a broker network twice the size of the nearest competitor. It also runs smaller brokerage operations in Hong Kong and Thailand. UOBKH enjoys an extremely strong financial position, with significant net cash on its balance sheet. The management team has an excellent track record, navigating the liberalization of stock trading in Singapore and the depressed trading conditions of the years 2000 to 2003. The company has been especially successful at making acquisitions at low prices, while retaining the management of acquired companies. The Fund has been able to initiate a position in UOB-Kay Hian common shares at book value.

RESOURCE CONVERSION ACTIVITY IN THE PORTFOLIO

Chuan Hup Holdings Limited ("Chuan Hup") completed the sale of the majority of its operating businesses in a primarily cash transaction. The majority of the company's capitalization now consists of unencumbered cash, a significant portion of which will be returned to shareholders via a return of capital later this year. We would expect more such payments as Chuan Hup disposes of its non-core businesses.

Falconbridge Ltd. (formerly Noranda Inc.), a Canadian base metals mining company has received a friendly bid from Inco Ltd. The valuation is a generally acceptable one and is materially higher than a bid proposed last year, which subsequently lapsed. However, the consideration, comprised of cash and Inco common shares (constituted primarily the latter), appears to be less than compelling. Accordingly we have chosen to dispose of our holding in Falconbridge Common.

GEAC Computer Corp. ("GEAC") is a Canadian software company, which had been built by a series of acquisitions. GEAC had difficulty continuing its acquisition-led growth strategy given the elevated valuations of potential targets. This, combined with its modest valuation (in relative and absolute terms), led management to put the company up for sale, following the suggestion of some of its more vocal shareholders. GEAC has received a friendly cash offer at a valuation that we consider acceptable. Absent any adverse developments, this transaction is expected to close in the first calendar quarter of 2006.

As we had mentioned in an earlier letter, Skandia Forsakrings AB ("Skandia"), a Swedish life insurer held in the Fund, is the subject of a takeover bid by Old Mutual plc ("OM"). The consideration is composed primarily of OM Common. Our unwillingness to tender our Skandia shares to the bid revolves around two considerations:

- The valuation being placed upon Skandia is wholly inadequate, with the benefits of the continued and progressive operational improvements underway at Skandia accruing to the OM shareholders were the bid to succeed. The bid price imputes a low valuation to a number of the operations, which given the geographically disparate nature of Skandia's operations, are quite separable and eminently saleable at attractive valuations.
- The second objectionable element of the bid is the composition of the consideration, which is primarily OM shares, and secondarily cash. Were OM unable to achieve a full takeover of Skandia (i.e., in excess of 90% of the outstanding shares), the absence of access to Skandia's cash flow would leave the acquiror's balance sheet with a level of financial leverage that we find uncomfortable. Secondly, a significant portion of OM's revenues and operating earnings are derived from South Africa, and will continue to be true even after the purchase of Skandia (were it to be successful). These factors, in our view, potentially augment the risk level for a Skandia investor receiving OM shares, without any offsetting increase in compensation, e.g., higher prices, or better terms.

TRADING AND INVESTMENT CONSIDERATIONS

As long-term investors, we have had little to say in our earlier letters about trading-related matters. Since our principal interest in this matter relates to investment, in particular long-term investment, in this letter we explore the relevance of trading liquidity of securities to our investment approach. An investment approach with a long-term investment horizon, such as Third Avenue Management's, affords considerably greater leeway than that would be inferred by looking at the trading volumes of securities over shorter time periods.

Liquidity is of considerable importance for portfolios geared toward short-term trading or investing with short-term horizons. However, portfolios such as the Fund, which are oriented towards a buy-and-hold strategy rather than trading, would necessarily attribute considerably less weight to the security's liquidity in the investment decision process.

Another situation where liquidity could be of importance is in portfolios which employ financial leverage to enhance rates of return. In these cases, it could be important to have the ability to immediately exit any position experiencing adversity (and, therefore, potential price declines), to pre-empt a possible margin call. The Fund operates without the use of borrowed money and would not be subject to such a forced sale. If anything, the availability of cash on hand has historically allowed the Fund to make opportunistic purchases during periods of declining prices. On a related note, the nature of the adversity that might be faced by the Fund's investments would normally exclude those stemming from an investee company having an overly leveraged balance sheet because, generally speaking, our companies tend to be well-financed entities. Accordingly, price declines might provide opportunities for purchase at attractive prices.

Third Avenue Management's investment strategy is not solely dependent upon the market. Resource conversion events, such as those noted in the preceding section, often realize value while providing an exit from a holding, bypassing the market entirely. Since exits from the Fund's holdings do not necessarily require us to be a seller in the market, the importance of liquidity is reduced.

"Liquidity is of considerable importance for portfolios geared toward short-term trading or investing with short-term horizons. However, portfolios such as the Fund, which are oriented towards a buy-and-hold strategy rather than trading, would necessarily attribute considerably less weight to the security's liquidity in the investment decision process."

Indeed this lack of focus on trading liquidity can be a source of opportunity. For example:

- Not requiring an elevated level of liquidity as a prerequisite for investment could widen the universe of potential investment candidates. These can be less vigorously traded securities, which meet the Fund's investment requirements for safety and cheapness, and can be accumulated within the Fund's investment horizons, but might be completely unsuitable for investment vehicles focused on trading and shorter-term investment activities.
- The waxing and waning of trading liquidity can provide opportunities. Short-term illiquidity faced by sellers, particularly in times of stress (such as in a number of locales in 2002, or in Asia during the 1998 crisis), can provide opportunities for accumulation of securities at attractive prices.

Accordingly, the Fund's stock selection process gives relatively low weight to a security's daily trading liquidity in judging its attractiveness for inclusion in the portfolio, with the caveat being that the disposition of any security can be made in a reasonable time frame in a worst case scenario and in accordance with relevant regulations.

GEOGRAPHICAL DISTRIBUTION OF INVESTMENTS

The Fund's performance may be influenced by a foreign country's political, social and economic situation. Other risks include currency fluctuations, political uncertainty, less liquidity, lack of efficient trading markets, and different auditing and legal standards. One or more of these factors may result in more volatility for the Fund.

	%
Singapore	10.22
Norway	8.64
Japan	7.81
Hong Kong	7.06
Canada	6.31
New Zealand	5.62
Sweden	2.24
Australia	2.15
Belgium	1.93
United Kingdom	1.89
France	1.33
Denmark	1.20
Netherlands	0.58
Switzerland	0.28
Panama	0.22
Argentina	0.13
Equities — total	57.61
Foreign Government Debt	3.02
Cash & Other	39.37
Total	100.00%

Portfolio holdings are subject to change without notice.

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

On December 22, 2005, a distribution of $0.56 per share was made to shareholders of record on December 21, 2005. Of this amount $0.46 should represent ordinary income and $0.10 should represent long-term capital gain. A portion of the amount representing ordinary income may be treated as qualified dividend income for purposes of the 15% maximum tax rate on individuals. The information provided in this letter does not represent final tax information and, therefore, should not be used in completing your income tax returns. Information necessary to complete your income tax returns for the calendar year ending December 31, 2005 will be issued by the Fund in the early part of 2006. Shareholders, as always, have the option of receiving distributions in either cash or newly-issued shares of the Fund.

I will write you again when the report for the period to end January 31, 2006 is issued. Best wishes for a happy and prosperous New Year.

Sincerely,

Amit Wadhwaney
Portfolio Manager,
Third Avenue International Value Fund

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