THIRD AVENUE FUNDS

Third Avenue Value Fund

Third Avenue Small-Cap Value Fund

Third Avenue Real Estate Value Fund

Third Avenue International Value Fund

Third Avenue Focused Credit Fund

SEMI-ANNUAL PORTFOLIO MANAGER COMMENTARY

APRIL 30, 2013

Letter from the Chairman
(Unaudited)

Dear Fellow Shareholders:

One conservative, but highly productive, approach to long-term common stock investing is to acquire issues which have the following characteristics:

1) The issuer has an especially strong financial position.

2) The common stock is selling at prices that reflect at least a 20% discount from readily ascertainable Net Asset Value ("NAV") as of the latest balance sheet date.

3) There is comprehensive disclosure including reliable audited financial statements; and the common stock trades in markets where regulations provide substantial protections for Outside, Passive Minority Shareholders ("OPMI's").

4) The prospects seem good that over the next three to seven years NAV will be increasing by not less than 10% compounded annually after adding back dividends.

Characteristics 1), 2) and 3), are easily ascertainable but Characteristic 4) requires considerable analytic skill.

Concentrating on long-term growth in NAV ought to give OPMI's far greater downside protection than would the conventional approach where the emphasis is on predicting periodic future operating cash flows or earnings (with earnings defined as creating wealth while consuming cash). For perhaps 90% or more of companies whose common stocks are publicly traded, 90% to 95% of the time, NAV or book value will increase in each reporting period. The last time the Dow Jones Industrial Average was over 14,000 was October 2007. Today the Dow Jones Industrial Average's book value is some 70% higher than it was in October 2007. More importantly, the quality of that book value probably has improved dramatically since October 2007. Thus, in order to not suffer large losses, all that has to happen is that discounts from NAV do not widen materially. The "NAV common stocks" with which various Third Avenue Management ("TAM") portfolio managers are involved include issues by Brookfield Asset Management, Capital Southwest, Cheung Kong Holdings, Forest City Enterprises, Henderson Land, Investor AB, Lai Sun Garment, Toyota Industries, Wharf Holdings and Wheelock & Company. These common stocks sell at prices relative to NAV ranging from 0.3x NAV to 0.8x NAV. In contrast the common stocks of the companies that make up the Dow Jones Industrial Average and the S & P 500 are selling at close to 3.0x book value (which is closely related to NAV).

Unlike conventional analysis where there is a primacy of the income account and the managements are appraised mostly as operators of going concerns, in our approach managements are appraised not only as operators but also as investors and financiers. If economic times get very bad, and absent social unrest and violence in the streets, astute managements of credit-worthy companies will be in a position to make super-attractive acquisition deals just as was the case after the 2008 economic meltdown. Astute managements which made super attractive deals after 2008 include Brookfield Asset Management, Cheung Kong Holdings and Wheelock & Company.

Conventional securities analysis, while helpful for trading purposes, contributes very little toward helping OPMI's understand businesses or the securities they issue. This seems attributable to a gross overemphasis on four factors in conventional security analysis:

1) An emphasis on a primacy of the income account, whether to measure periodic cash flows or periodic earnings. There has been a consequent denigration of what, at least since 2008, has been the most important factor in financial and economic analysis, i.e., corporate credit-worthiness.

2) Short termism. Short termism is the only way to go when dealing with "sudden death" securities, i.e., options, derivatives or risk arbitrage but it does nothing to help evaluate a business with a perpetual life.

3) An emphasis on top-down analysis (predicting market levels, interest rates, general business outlooks) versus examining businesses from the bottom up (contract terms, potential future competition, litigation, financing, and refinancing opportunities, changes of control).

4) A belief in equilibrium pricing. The OPMI market price is the right price in an efficient market and will change only as the market absorbs and interprets new information.

While I think that trying to buy growth in NAV at a discount is a highly productive pattern for OPMI's to follow, it is important to recognize a number of shortcomings to the approach:

In 2013, managements of companies with super strong financial positions are sacrificing Return on Equity ("ROE") and Return on Investment ("ROI") for the safety and opportunism inherent in having a strong financial position.

Strongly financed companies without much, if any, Wall Street sponsorship, are frequently run by dead head managements who don't own any common stock, but this seems a bigger problem for Japan than for the U.S., Canada or China.

The OPMI market seems efficient enough most of the time that large discounts from NAV indicate an absence of catalysts that could result in dramatic near-term price appreciation for a common stock, e.g., a contest for control.

> **"If economic times get very bad, and absent social unrest and violence in the streets, astute managements of credit-worthy companies will be in a position to make super-attractive acquisition deals just as was the case after the 2008 economic meltdown."**

Unlike situations where market participants seek control, or elements of control, the NAV common stocks mentioned in this letter are marketable securities whose prices in the near term will be heavily influenced by market fluctuations in what is basically an irrational market from the point of view of long-term buy and hold investors.

For those interested in further reading, these are some of the concepts used by Third Avenue's investment team, and are discussed in greater detail in my newly published book, *Modern Security Analysis: Understanding Wall Street Fundamentals.* (John Wiley & Sons Inc., May 2013).

I shall write you again when the quarterly report for the period to end July 31, 2013 is published.

Sincerely yours,

Martin J. Whitman
Chairman of the Board

Third Avenue Value Fund
(Unaudited)

Dear Fellow Shareholders:

The following summarizes The Third Avenue Value Fund's (The "Fund," the "Value Fund") investment activity during the quarter:

Number of Shares	New Position
750,000 shares	Apache Corp. Common Stock ("Apache Common")
	Positions Increased
25,000 shares	Devon Energy Corp. Common Stock ("Devon Common")
300,000 shares	Encana Corp. Common Stock ("Encana Common")
186,868 shares	NVIDIA Corp. Common Stock ("NVIDIA Common")
1,942,435 shares	Tellabs Inc. Common Stock ("Tellabs Common")
	Positions Decreased
525,000 shares	Bank of New York Mellon Corp. Common Stock ("Bank of New York Common")
123,800 shares	Brookfield Asset Management Inc. Class A Common Stock ("Brookfield Asset Management Common")
5,397,600 shares	Daiwa Securities Group Inc. Common Stock ("Daiwa Common")
417,822 shares	Forest City Enterprises Inc. Class A Common Stock ("Forest City Common")
800,000 shares	Hang Lung Group Ltd. Common Stock ("Hang Lung Common")
500,000 shares	Henderson Land Development Co. Ltd. Common Stock ("Henderson Common")
489,500 shares	Toyota Industries Corp. Common Stock ("Toyota Industries Common")

Number of Shares	Positions Decreased (continued)
3,139,000 shares	Wheelock & Co. Ltd. Common Stock ("Wheelock Common")
	Positions Eliminated
6,366 shares	Investor AB Class A Common Stock ("Investor AB Class A Common")
9,337 shares	RS Holdings Corp. Class A Common Stock ("RS Holdings Common")
1,022,245 shares	RS Holdings Corp. Convertible Class A Preferred Stock ("RS Holdings Convertible Preferred")

DISCUSSION OF QUARTERLY ACTIVITY

The Fund initiated a new position in Apache Common during the quarter. Apache is a Houston based oil and gas exploration and production ("E&P") company. Apache Common seems to be very inexpensive—the shares were purchased at a slight discount to book value, 3.5x earnings before interest, taxes depreciation and amortization ("EBITDA"), 8x expected 2013 earnings and a 20% discount to our conservative estimate of net asset value ("NAV"). The management team, led by CEO Steve Farris, has an impressive long-term track record of growth, and several recent acquisitions, including assets opportunistically acquired from BP after the Macondo oil spill, provide the company with a wealth of development opportunities to drive future net asset value growth. Apache's financial position is strong as most of its debt is long term, low coupon (A- credit rating) and easily supported by cash flow (interest coverage totals about 24x). During the quarter, the Fund also added to Devon Common and Encana Common, two other oil and gas E&P companies that have been discussed in recent letters. The common stocks of oil and gas E&P companies accounted for about 8% of the Fund's assets at quarter end.

Portfolio holdings are subject to change without notice. The following is a list of Third Avenue Value Fund's 10 largest issuers, and the percentage of the total net assets each represented, as of April 30, 2013: Wheelock & Co., Ltd., 6.69%; Henderson Land Development Co., Ltd., 5.43%; Covanta Holding Corp., 5.37%; POSCO, 5.15%; Bank Of New York Mellon Corp., 5.14%; Daiwa Securities Group, Inc., 5.07%; Toyota Industries Corp., 5.05%; KeyCorp, 4.67%; Devon Energy Corp., 4.57%; and Hang Lung Group Ltd., 3.90%.

The Fund added to its position in Tellabs Common during the quarter, reinvesting a small portion of the cash received from the substantial dividend the company paid at the end of 2012. As discussed in the October 31, 2012 shareholder letter, Third Avenue filed a Form 13D in November 2012 to reserve the right to meet with management, the Board and other shareholders in an attempt to enhance shareholder value. This filing followed disappointing third quarter financial results and guidance. Third Avenue is usually a passive and supportive long-term investor, but, in this case, we determined that being more active was appropriate and likely to lead to a better outcome for our investors. Since our 13D filing, there have been several positive developments, including the following:

- **Board.** In December, the company added Mikel Williams and Dennis Strigl to the board. Mr. Williams, who was nominated by activist shareholder Dialectic Capital Management, was previously the CEO of DDi Corp, a producer of printed circuit boards, from 2005 until its sale in 2012. Mr. Strigl had a long and distinguished career at Verizon (Tellabs' largest customer), serving as both Chief Operating Officer and CEO of Verizon Wireless. Third Avenue interviewed both candidates prior to their appointment. On May 1, 2013 Alex Machinsky was elected to the Board at the company's annual meeting. Mr. Machinsky, a seasoned founder and executive of telecom and internet companies and the holder of more than 50 technology patents, was nominated by Third Avenue. Tellabs has now added five new directors since the beginning of 2012, including two nominees from Third Avenue and two from Dialectic.
- **Capital structure.** Tellabs paid a $1 per share ($368 million) dividend before year end and announced the resumption of a $225 million share repurchase plan. Even after the dividend and resumption of the share repurchase plan, the company has a strong financial position with $572 million in cash and short-term investments and no debt.
- **Restructuring.** In January 2013, Tellabs announced a 300 person headcount reduction (12% of the workforce), and the discontinuance of the 9200, a large capacity edge router. Management appears to be making significant progress reducing costs.

Although the revenue outlook remains quite challenged, the company's recent actions have resulted in a much leaner organization and improved cash flow. The shares continue to be attractively priced at only a modest premium to the company's $572 million of cash ($1.60 per share). We are pleased with the recent changes to the Board and believe the company still has several options for generating improved shareholder value.

Along with the activity described above, the Fund also trimmed several positions to maintain position sizes and eliminated a small non-core position (RS Holdings Corp). At quarter end cash totaled 12.6% of the Fund's assets.

HONG KONG UPDATE

During the quarter, most of our Hong Kong real estate and investment companies reported full year 2012 financial results. The common stocks of the companies listed below accounted for 21% of the Fund's assets at quarter end. As the table indicates, the 2012 results were tremendous. Leasing income growth (mostly from office buildings and shopping centers) ranged from 10%-25% (21% median), driven by robust growth in China and continued healthy growth in Hong Kong. Despite government measures to cool the residential property markets in Hong Kong and China, property development margins ranged from 26%-66% (43% median). These favorable property results along with the continued healthy non-property operations (i.e. gas distribution, infrastructure, retail and telecommunications) of the companies drove annual growth in NAV, including dividends, of 9%-50% (21% median).

Despite continued healthy fundamentals, the common stocks of these companies remain very attractively valued at an average discount to NAV of 31%. Additionally, the companies all have very strong financial positions with net

Third Avenue Value Fund
Hong Kong Real Estate and Investment Companies

	Common Stock Price	NAV (1)	Price to NAV	12 Mths 2012 Prop Dev Margin	12 Mths 2012 Leasing Growth	12 Mths 2012 NAV Growth	Net Debt to Capital	Insider Ownership
Cheung Kong Holdings	$116.80	$144.50	81%	37.7%	16.5%	12%	7.3%	43%
Hang Lung Group	$45.70	$48.31	95%	66.4%	10.3%	9%	NM	37%
Henderson Land Development	$56.20	$84.97	66%	26.5%	17.5%	10%	14.6%	63%
Lai Sun Garment (2)	$1.53	$6.46	24%	NM	24.8%	50%	23.6%	44%
Wheelock (3)	$43.20	$74.82	58%	40.8%	12.5%	25%	11.8%	59%

Note: Prices as of April 30, 2013. All figures in Hong Kong dollars.
(1) Reported Net Asset Value as of 12/31/12.
(2) Based on 12 months ended 1/31/13.
(3) Excludes Wharf's net debt (non-recourse to Wheelock) and Wheelock Properties' net cash.
NM: Not Meaningful
Source: Company reports

debt to capital ratios no higher than 24%. Finally, the management teams are aligned with outside passive minority shareholders like Third Avenue through substantial insider ownership ranging from 37%-63%. Following the release of the 2012 financial results, both Lee Shau Kee and Li Ka-Shing, the chairmen of Henderson Land Development and Cheung Kong Holdings, respectively, increased their positions by purchasing shares in the open market.

> **"Toyota and Daiwa have accomplished a lot of heavy lifting over the past few years and are now well positioned to reap the benefits."**

BETTER TIMES FOR JAPAN, OR JUST GOOD COMPANIES?

You can learn a lot about a company by how it deals with hard times. By that standard, we have had a long time to learn an awful lot about Japanese companies, where the Fund has had experience since 1997, both as investors in companies and with the management teams that run them. Not all of it is good, but there have been some bright spots that are shining for us right now.

Third Avenue's style of value investing has always emphasized balance sheet strength. A well-capitalized company can act both on offense and defense, as opportunities arise and as the environment demands. A management team that can pay its bills has the flexibility it needs to fix problems as they arise. For two decades, Japanese companies, particularly those that are not pure exporters, have had to deal with Japan's deflationary trap, which has coincided with the demographic greying of its population. Almost all companies have struggled to some degree. In some cases, unforced errors further diminished growth potential.

Two of our top performers this quarter were Daiwa Securities and Toyota Industries. Although it's easy to conclude both companies have benefitted from the inflationary policies implemented by the newly installed Abe government (and its emboldened Central Bank), there is fundamentally more to the story. Yes, Japan stocks were up broadly with the Topix gaining 25% (including dividends, in U.S. dollar terms) during our fiscal second quarter, but Daiwa and Toyota Industries, which started the rally at lower relative valuations than the index, had more room to grow and have thus far outperformed. We believe, over the long run, that Daiwa and Toyota have taken steps over the past few years to position themselves for growth, which is now being recognized by investors.

As was highlighted in our last shareholder letter, our assessment of management is a critical component of our investment process. We spend a lot of time reviewing steps taken and try to judge how the company is positioned for future growth. Toyota and Daiwa have accomplished a lot of heavy lifting over the past few years and are now well positioned to reap the benefits. While the Japan macro story is getting a lot of attention, we believe that the specifics of two very different companies are truly driving returns.

DAIWA SECURITIES

The Value Fund took a position in Daiwa Securities in the third quarter of 2012. Daiwa is the second largest Japanese brokerage company. It has been a terrific investment for our shareholders. As detailed in the Shareholder Letter that quarter, Daiwa was well capitalized with a 27.4% capital adequacy ratio, but traded at a 27% discount to tangible book value. Investors were worried about the investment environment in Japan, as well as the fact that Daiwa pursued a restructuring program that focused the company on its domestic constituency.

Investors were right to have worried about Daiwa's move towards a Japan-centric strategy as financial market conditions were bleak. Risk aversion was rampant in Japan as households had over 50% of their assets invested in cash products and only 10% in equity products. Trading volumes and IPO activity had plummeted, which is very important to Daiwa as its revenues are strongly correlated with financial market activity. Daiwa's management seemed determined to steer the company towards Japan's troubled economy, rather than away from it, a direction that some investors were not willing to pursue.

Investors usually have reasons for their behavior and, in this case, the Daiwa bearishness certainly seemed to have rational foundations. But we looked at Daiwa differently. Daiwa's strong balance sheet gave it time to re-focus the business, even if results were not immediately positive. Daiwa felt its competitive position was strongest in Japan so it was better to compete there than in other markets. At a 30% discount to book value, the company was priced as if it would continue to destroy value over time. Once the cost cutting was completed, we didn't think that scenario was likely.

Good things happen to cheap stocks. That's a perfect summary of what has happened to Daiwa over the past six months. The Abe government was installed in late 2012 and has taken highly aggressive measures to combat the deflation which has plagued Japan for the past 20+ years. So far, it has created a tidal wave in activity in Japan and Daiwa is benefitting greatly. Retail investors who have been on the sidelines are re-entering the markets. A recent study illustrated that retail volumes now account for 30% of activity vs. 20% in late 2012. With Japanese households having greater than $8.9 trillion in cash and deposits, there could be a lot more run-way for Daiwa to sell their services.

Admittedly, it's early and we are constantly assessing the risks and are continuously managing our position size. On the other hand, the financial results thus far have been eye popping. Daiwa released its most recent quarterly report in May; revenues grew 24% while SG&A declined 7% versus the previous year results. Book value per share grew 15% year over year and the annualized return on equity was 22%. Most importantly, the capital adequacy ratio—a commonly used measure of balance sheet strength—remains at the same levels as when we initially made the investment.

TOYOTA INDUSTRIES

Toyota Motor is a business school case study in the making. Since 2009, Toyota Motor has faced quality issues, increasing competitive pressures and the impacts of a strong yen exacerbated by production/supply chain issues wrought by the Great East Japan earthquake/tsunami and subsequent massive flooding in Thailand. Against these headwinds, the company has been taking steps to reinvigorate itself, including recruiting a family member, Akio Toyoda, back to the helm. He has so far succeeded in aggressively addressing quality issues at Toyota.

The story is still unfolding, but so far, the plot is enticing: (i) the perception of the Toyota franchise has improved with 19 Toyota (along with Lexus and Scion) models named as "Top Safety Picks" by the Insurance Institute of Highway Safety, and Kelly Blue Book giving Toyota brands 18 best resale value awards; (ii) Toyota launched 19 new or significantly updated models in 2012 and plans to launch nine new or updated products in 2013; (iii) the company has focused on increasing local content to provide more of a natural currency hedge, albeit this is an ongoing process and it still has substantial production capacity in Japan.

The Fund doesn't own Toyota Motor common stock; rather our investment is via Toyota Industries ("TICO"). TICO spun off Toyota Motor in 1937 but remains the single largest shareholder of Toyota Motor common. It also has a sizeable investment portfolio of other marketable securities, of which the largest, by percent of assets, are also part of the Toyota Group (*e.g.*, Denso). Operationally, Toyota Industries has a number of different industrial businesses, the largest being automotive, where it assembles vehicles and manufactures auto parts, including car air conditioning compressors, engines and electronic components for hybrids, and materials handling where it manufactures equipment such as fork lift trucks. Our initial attraction to TICO was as a cheaper way to invest in Toyota Motor—TICO common traded at a discount to its investment portfolio—while also enabling us to get TICO's profitable operating businesses for free. Over time, we believed the company had the ability to grow its NAV. TICO has been a perennial holding since 1997 and while we have lived through its ups and downs, it has been a modestly profitable investment for the Fund that we still believe has potential to offer more, particularly after recent steps taken by management to improve operations and profitability both at TICO and Toyota Motor.

"We did not have a crystal ball that allows us to anticipate the election results and the recent success of Abe's bold measures. Fortunately, we don't need one. Instead, we purchased well-capitalized companies that were enduring tough times, but were positioning themselves for a brighter future."

Since late 2012, the yen has depreciated by about 22% versus the US dollar. For Toyota Motor, a one yen move vs. the US dollar has an estimated ¥35 billion impact on operating profits and vs. the Euro about a ¥5 billion impact. The direct currency effect is less dramatic for TICO, but the company clearly benefits, both operationally as well as from its ownership of Toyota Motor.

Over the past year, TICO acquired Cascade Corp., a manufacturer of materials handling attachments; acquired the rest of Uster Technologies, a textiles testing machinery company, in what amounted to initially a hostile bid; and has continued to focus on increasing its value add, particularly in the electronics area for hybrids. The company continues to hold the number one market share position in industrial trucks worldwide.

MACRO, MACRO EVERYWHERE

The yen weakening in response to Abe's accommodations has definitely been a near-term positive for our Japanese holdings. For us, however, the yen's lever has never been the key driver underlying our investment thesis in any Japan-based company. Instead, it's something we monitor and seek to understand but that we consider secondary to corporate strategy and to the quality and quantity of a company's assets. Daiwa and Toyota, though very different businesses, have both taken measures and continue to focus on cost cutting initiatives to improve their competitiveness, which we believe should help position them to grow NAV over the longer term.

It seems to us that many investors in Japan-based companies are fixated on the yen, because they tend to invest only in exporters. Toyota Industries is an exporter, but it also has a significant business presence in Japan. Many of its customers are other Japanese companies and it is one of the companies that is helping to rebuild Japan after the 2011 earthquakes. Daiwa, particularly under its new strategy, is a Japanese company that serves Japanese clients. When you find companies that are more than just exporters, currency levels become something to note, not the backbone of a thesis.

We did not have a crystal ball that allows us to anticipate the election results and the recent success of Abe's bold measures. Fortunately, we don't need one. Instead, we purchased well-capitalized companies that were enduring tough times, but were positioning themselves for a brighter future. That's a recipe that Third Avenue has followed for years and we plan to stick with.

We shall write to you again when we publish our Third Quarter Report dated July 31, 2013. Thank you for your continued support of the Fund.

Third Avenue Value Fund Team

Ian Lapey—Lead Portfolio Manager
Michael Lehmann
Yang Lie
Victor Cunningham

Third Avenue Small-Cap Value Fund
(Unaudited)

Dear Fellow Shareholders:

During the quarter, The Third Avenue Small-Cap Value Fund ("Small-Cap Value" or the "Fund") initiated nine new positions, added to 14 of its 71 existing positions, eliminated three positions and reduced its holdings in 30 companies. At April 30, 2013, Small-Cap Value held positions in 69 common stocks, the top 10 positions of which accounted for approximately 25% of the Fund's net assets.

QUARTERLY ACTIVITY

Number of Shares	New Positions
381,668 shares	Ascena Retail Group Inc. Common Stock ("Ascena Common")
175,167 shares	Blucora Inc. Common Stock ("Blucora Common")
78,851 shares	Cass Information Systems Inc. Common Stock ("Cass Common")
107,500 shares	City National Corp. Common Stock ("City National Common")
181,184 shares	Commerce Bancshares Inc. Common Stock ("Commerce Common")
110,145 shares	Cullen/Frost Bankers Inc. Common Stock ("Cullen/Frost Common")
111,029 shares	ERA Group Inc. Common Stock ("ERA Common")
92,165 shares	Syntel Inc. Common Stock ("Syntel Common")
103,343 shares	Tetra Tech Inc. Common Stock ("Tetra Tech Common")
	Positions Increased
159,159 shares	ABM Industries Inc. Common Stock ("ABM Common")
70,220 shares	American Eagle Outfitters Inc. Common Stock ("American Eagle Common")

Number of Shares or Units	Positions Increased (continued)
15,558 shares	Cal-Maine Foods Inc. Common Stock ("Cal-Maine Common")
38,949 shares	Enersys Inc. Common Stock ("Enersys Common")
2,000 shares	Excel Trust Inc. Common Stock ("Excel Trust Common")
2,520 shares	HCC Insurance Holdings Inc. Common Stock ("HCC Common")
110,000 shares	Ingram Micro Inc. Class A Common Stock ("Ingram Micro Class A Common")
61,043 shares	Kaiser Aluminum Corp. Common Stock ("Kaiser Common")
81,353 shares	LSB Industries Inc. Common Stock ("LSB Common")
137,412 shares	Orbital Sciences Corp. Common Stock ("Orbital Sciences Common")
32,500 shares	Oshkosh Corp. Common Stock ("Oshkosh Common")
10,000 shares	Progress Software Corp. Common Stock ("Progress Common")
10,000 shares	Semgroup Corp. Class A Common Stock ("Semgroup Class A Common")
18,500 shares	Stepan Co. Common Stock ("Stepan Common")
	Positions Decreased
13,134 shares	Alleghany Corp. Common Stock ("Alleghany Common")
3,950 shares	Allscripts Healthcare Solutions Inc. Common Stock ("Allscripts Common")
450,000 units	AP Alternative Assets L.P. ("AP L.P.")
29,200 shares	Bel Fuse Inc. Class B Common Stock ("Bel Fuse Class B Common")
73,285 shares	Broadridge Financial Solutions Inc. Common Stock ("Broadridge Common")

Portfolio holdings are subject to change without notice. The following is a list of Third Avenue Small-Cap Value Fund's 10 largest issuers, and the percentage of the total net assets each represented, as of April 30, 2013: Oshkosh Corp., 2.81%; JZ Capital Partner Ltd., 2.66%; Alleghany Corp., 2.57%; Ingram Micro, Inc., 2.55%; Compass Minerals International, Inc., 2.47%; Unifirst Corp., 2.44%; Semgroup Corp., 2.43%; HCC Insurance Holdings, Inc., 2.28%; Kennametal, Inc., 2.19%; and Enersys, Inc., 2.16%.

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

Number of Shares	Positions Decreased (continued)
8,434 shares	Cimarex Energy Co. Common Stock (“Cimarex Common”)
10,000 shares	Compass Minerals International Inc. Common Stock (“Compass Minerals Common”)
82,100 shares	Cross Country Healthcare Inc. Common Stock (“Cross Country Common”)
23,330 shares	Darling International Inc. Common Stock (“Darling Common”)
24,186 shares	Electro Scientific Industries Inc. Common Stock (“Electro Scientific Common”)
102,345 shares	Electronics for Imaging Inc. Common Stock (“Electronics for Imaging Common”)
14,049 shares	Emcor Group Inc. Common Stock (“Emcor Common”)
20,000 shares	Harman International Industrial Inc. Common Stock (“Harman Common”)
26,182 shares	J&J Snack Foods Corp. Common Stock (“J&J Common”)
102,750 shares	Jakks Pacific Inc. Common Stock (“Jakks Common”)
71,716 shares	Jos. A. Bank Clothiers Inc. Common Stock (“Jos A. Bank Common”)
148,150 shares	JZ Capital Partners Ltd. Common Stock (“JZ Common”)
22,005 shares	Kennametal Inc. Common Stock (“Kennametal Common”)
18,635 shares	Liberty Media Corp. Common Stock (“Liberty Common”)

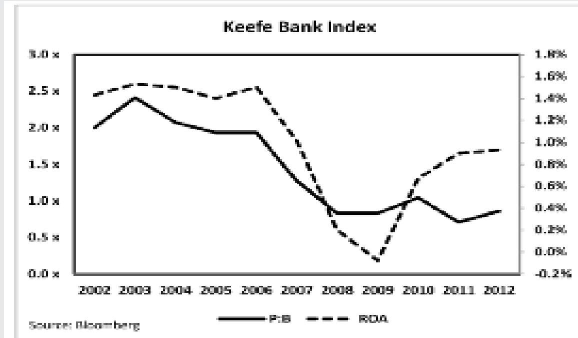
Number of Shares	Positions Decreased (continued)
185,222 shares	Madison Square Garden Co. Class A Common Stock (“Madison Square Garden Class A Common”)
79,550 shares	Mantech International Corp. Class A Common Stock (“Mantech Common”)
23,105 shares	Minerals Technologies Inc. Common Stock (“Minerals Technologies Common”)
753,980 shares	Pioneer Energy Services Corp. Common Stock (“Pioneer Common”)
164,103 shares	Rofin-Sinar Technologies Inc. Common Stock (“Rofin-Sinar Common”)
111,600 shares	Segro PLC Common Stock (“Segro Common”)
49,610 shares	Starz-Liberty Capital Common Stock (“Starz-Liberty Common”)
34,351 shares	Superior Industries International Inc. Common Stock (“Superior Common”)
89,625 shares	Teleflex Inc. Common Stock (“Teleflex Common”)
451 shares	Unifirst Corp. Common Stock (“Unifirst Common”)
29,700 shares	Wacker Neuson SE Common Stock (“Wacker Neuson Common”)
	Positions Eliminated
7,724 shares	E-L Financial Corp. Ltd. Common Stock (“E-L Common”)
111,402 shares	Lexmark International Inc. Class A Common Stock (“Lexmark Class A Common”)
163,879,480 shares	PYI Corp. Ltd. Common Stock (“PYI Common”)

QUARTERLY ACTIVITY

The Fund's additions this quarter span a diverse set of businesses, from banking and retailing to outsourcing and consulting, reflecting our team's ability to cast a wide net in the search for new ideas. Position sizes were kept in check to some degree by rapidly rising[1] and, from our perspective, relatively fuller valuations across nearly every segment of the small-cap company universe. The Fund exited long-time holdings in two non-U.S. companies, E-L Financial and PYI Corporation. As of April 30, the Fund held approximately 9% of its assets in cash and Treasury bills while non U.S. listed companies accounted for approximately 11% of the Fund's assets (though more than half of that amount was linked to companies whose primary activities reside in the U.S.).

Fund Management concentrated most of its newly deployed capital toward common stocks of companies that it views as higher quality, long-term compounders. This group includes three banks, the retailer Ascena Retail Group and the information technology ("IT") outsourcing firm Syntel. This quarter's recipe was not without some "spice," however, in the form of Blucora Common— a holding that we view today as a "special situation." Each of these investments is discussed in some detail below.

Multiple cross currents swirl around today's banking industry, forming a riptide that includes painfully low interest rates, a wounded and angry regulatory regime that has imposed a dense thicket of new regulations and heightened capital requirements[2] and generally tepid economic conditions that have moderated the demand for loans. As a result, returns and valuations across the banking sector have corrected smartly in the past decade. While the industry's returns have started to improve—evidenced by the upturn in Return on Assets ("ROA")—investors largely remain skeptical as can be seen in still depressed valuations.



Much of the lingering pain in today's economy of course traces its roots to the Great Recession, itself a product of a banking system tinged—at least in some of the country's largest institutions—by a combination of bad incentives, negligence and megalomania.

Banking should be a relatively straightforward, utility-like business, but somehow bankers tend to stray from what made them successful and invent new ways of losing money. Today's banking landscape appears to us to be stratified into three size groups:

(I) Large money center banks whose global operations span nearly every conceivable line of business from traditional commercial and investment banking to processing and securities trading. These firms are transaction driven (as opposed to relationship driven) and rife with conflicts, where the line between agent and principal is blurred daily. At present they are hemorrhaging talent and senior executives spend an inordinate amount of time wrangling and pleading with regulators. What is clear is that many of the largest organizations—labeled as "Too Big to Fail"—are simply too big to manage. Knowing that the bank's trading desks can (still) slough off bad credit into the capital markets, their credit cultures and

[1] Through March 31 of this year, the Russell 2000 Value and S&P 600 Small Cap Indices returned 11.6% and 11.8%, respectively and have risen roughly 25% off their mid-November 2012 lows. "Defensive" sectors such as Healthcare, REITs and Utilities—to which the Fund has a relatively low allocation—performed extraordinarily well. In fact, according to Furey Research (www.fureyresearch.com), the outperformance by defensive sectors within such a strong overall market has happened only twice since 1940. "How Rare Was 1Q13 Performance?"–Furey Research 05/06/13.

[2] Examples include Dodd Frank, the Volcker Rule and Basel III.

committees are little more than a formality. With massive off-balance sheet liabilities and counterparty risks—a sea of financial icebergs—it is impossible for investors to understand the opaque financial statements, thereby impairing the valuation and implicitly raising this group's cost of capital.

(II) Mid-sized regional banks focus on a handful of neighboring communities, cities and states where they offer a relatively limited menu of services. They tend to think in terms of relationships, not just churning out transactions and tend to protect the bank with strong underwriting skills (retaining risk) rather than hoping to trade the risk to someone else. Many of these institutions side-stepped the worst of the Credit Crisis by sticking to their core bread and butter businesses.

"Mid-sized regional banks may emerge as "super-regionals."

(III) Smaller, local community banks and thrifts. While many played by the rules and stuck to their knitting in the periods before the Credit Crisis, they find themselves today paying the price for the sins of others. It is unclear how or whether these management teams and operations have the resources and critical mass necessary to absorb the demands of the brave new world of banking. If Group I banks are too big to manage, Group III may be too small to cope.

Of these three groups, Fund Management believes the second group may emerge as "super-regionals," taking share from Groups I and III as the industry consolidates. While this group can prosper in the years ahead, our sense is that future returns for the banking industry are likely to be more modest than those seen in the last decade. The banks comprising the basket of stocks added to the portfolio, however, share a number of common characteristics that ought to enable them to stay ahead of the pack: (i) they managed well during the credit crisis and non-performing assets were (and are) a fraction of the industry averages, evidence that a strong credit culture remains intact; (ii) in a commodity business they have developed brands—true franchises—largely based on the strength of their customer relationships; (iii) their served markets show strong or improving relative economic conditions; (iv) they enjoy attractive sources of fee-based revenue, are extremely well capitalized and boast rock solid core deposit franchises and (vi) management and/or employees own a significant amount of company stock, increasing the alignment between owners and management.

City National was founded in 1954 in Los Angeles and quickly made its reputation as the "bank to the stars" because of its presence in the entertainment industry. The bulk of the company's operations remain in California and Nevada but it is slowly finding growth opportunities in other regions and boasts a lucrative money management and wealth advisory business. Commerce Bancshares, founded in 1865, is the oldest and largest bank in Missouri.[3] Descendants of the bank's first president, William Kemper, Sr., still manage both Commerce and the other major Kansas City bank, UMB Financial. In addition to being disciplined operators, management has been thoughtful capital allocators, not only opportunistically repurchasing stock but Commerce is one of a handful of banks that has increased its dividend consecutively for more than 45 years. The last recession benefited Commerce in some respects in that it allowed it to take market share away from weaker competitors. Founded in 1868, Texas-based Cullen/Frost enjoys a well-deserved reputation in its home state, as well as an intensely loyal customer base, while its management team has garnered a reputation for managing well through adversity—including the 1980's energy/real estate bust. The Texas economy appears to be recovering faster than the rest of the U.S., a tailwind that should help Cullen/Frost continue to grow at relatively attractive rates.

[3] As an historical aside, President Harry Truman worked at the bank as a clerk.

In a sign of the times, in 2012 Cullen/Frost became a state-chartered bank after more than a century as a national bank. The state charter ought to simplify management's job and means that regulatory decisions come from agencies that know Cullen/Frost well and not by the Office of the Comptroller of the Currency in Washington, D.C.

Shares of the banks were acquired at modest discounts to our estimates of intrinsic value. In this case, we were willing to trade an element of discount in return for higher business quality where our analysis suggests growth in intrinsic value may be well above average. Should current economic conditions persist (*i.e.*, low growth and low interest rates) we believe these holdings have limited downside. On the other hand, as noted above, we believe each of these banks may benefit from customers with attractive idiosyncratic characteristics.

Syntel Common was a modest new addition to the fund—a starter position in a high quality IT consulting and services business. Founded in 1980 in Troy, Michigan by future husband and wife team Bharat Desai and Neerja Sethi, Syntel has evolved from an IT staffing firm to focus largely on IT project based work and business process outsourcing utilizing an on-shore/off-shore service model—most of the company's employees are based in India, where costs and salaries are lower, and serve customers in the U.S.

While new to the Fund, Syntel is a name that has crossed our screens multiple times over the years. There has always been an excuse to pass: too illiquid, too expensive, too much customer concentration, or too many other investment opportunities. Yet each time it has crossed, it has been larger and more profitable. During its 15 years as a public company, Syntel has a remarkable record of compounding revenue at 12% while expanding margins, leading to earnings per share compounding at 21%, all with *deminimus* acquisitions and while generating significant excess cash. The company's growth can be attributed to the ongoing demand for outsourcing solutions as global corporations look everywhere to cut costs.

Syntel's recent appearance on our screens followed management's cut to its forecast in December 2012, calling for less *growth* as a large customer froze some of its spending. We revisited our notes after shares fell and noted a few changes:

- Freely tradable shares or "float" remain limited as founders Desai and Sethi continue to own about 58% of shares out (aligning their interests), but the company's larger size has been mirrored by improving share liquidity;
- Customer concentration remains relatively high, but concentration is mitigated by (i) a 5- to 8-year extension of one of its major contracts earlier in 2012 and (ii) the sticky, recurring nature of applications maintenance and business process outsourcing work;
- An unencumbered balance sheet with 15% of the company's market cap in cash (more than twice as much cash as total liabilities);
- A low teens earnings multiple, 6% free cash flow yield, reasonably attractive valuation metrics for a business of Syntel's quality and compelling growth prospects.

Third Avenue's Founder and Chairman Marty Whitman has long commented that the next perfect investment he finds will be the first and, similarly, Syntel is not without its imperfections. As noted, the company has two very large customers: American Express and State Street represent 44% of revenue combined. Syntel also operates in a highly competitive business, meaningful changes to the tax regime in India or the United States could hurt the company's economics, and downside protection is provided more via the growing and stable cash flows than by tangible asset values. Should another temporary hiccup emerge, we would look to build a meaningful position at a more discounted valuation.

Ascena Retail Group is a specialty retailer primarily serving the female demographic within the U.S. While history has shown that retailing can be a very tough business over the long-term, there are multiple elements of Ascena we find unusually attractive. That we had owned its predecessor, Dress Barn, nearly 10 years ago and have followed the company's development in more recent years, only increased our comfort level.

- *Portfolio of niche brands.* By operating a portfolio of diversified brands, Ascena is not overly reliant on the success of any one of them. Moreover, each of the brands operates separate stores within niche markets and faces very little in the way of direct competition, unlike most apparel retailers. Ascena's primary brands are Dress Barn, Lane Bryant, Catherines, Maurices and Justice and each cater to different niches of the female population based on age, geography, and size (with multiple brands targeting plus size customers, for example). While each brand largely operates autonomously, Ascena employs a unique shared services model whereby the back office functions of all the brands are centralized, thus driving efficiencies across the portfolio and allowing the brands to focus on their customers.

- *Strong, aligned management.* Ascena's management team owns a significant piece of the company and has a long track record of successfully growing the company by identifying, acquiring and integrating brands into its portfolio without compromising Ascena's strong financial position. While the most recent acquisition of Lane Bryant and Catherines (via the acquisition last year of their holding company Charming Shoppes) has experienced hiccups, we believe Management will ultimately prove successful with its integration strategy and that the current integration period will ultimately prove to just be a pause in the company's long-term track record of creating value for shareholders. Encouragingly, Ascena announced a new president for Lane Bryant shortly following our investment in the company. The new president has been well-received given her stellar track record running The Limited for the last six years and removes a significant question mark as the brand had been without a president since last fall.

- *Attractive valuation.* Shares of Ascena were purchased at a relatively undemanding 6x EBITDA, equating to roughly a 6% to 7% free cash flow yield.

Blucora is a company that fits within our basket of "special situation" investments, securities whose underlying dynamics do not easily lend themselves to conventional analysis. Although it was a fairly well-known company in prior years under its former name InfoSpace, today it largely flies under the radar of Wall Street investors and analysts (in part due to the June 2012 name change) and in some respects, we believe, is misunderstood.

While InfoSpace was a classic dot-com "boom-bust"—at one time commanding a market capitalization in excess of $30 billion while operating numerous unprofitable businesses—the Blucora of today is essentially a holding company that owns two very profitable Internet businesses and a large "hidden" asset. In some sense, Blucora Common is a private equity portfolio in disguise.

Blucora's first business is InfoSpace, its legacy "metasearch" business. In brief, InfoSpace aggregates search results from the major search engines that many of us use every day (e.g. Google, Yahoo!, Bing) and distributes the content to consumers and third parties (*e.g.,* third-party websites). Ultimately, when a consumer clicks on a paid ad hosted by one of the search engines, the search engine, InfoSpace and the third party all share the fee the advertiser is charged by the search engine.

Blucora's second business, TaxACT, assists individuals in preparing and filing taxes electronically. Blucora acquired TaxACT very opportunistically in January 2012 for $288 million just after the Justice Department blocked an identically-priced bid from H&R Block for antitrust reasons.

Both of Blucora's businesses sit within strong growth markets despite needing very little in the way of capital re-investment. With InfoSpace, the business continues to benefit from the ongoing migration from more traditional forms of advertising (*e.g.,* radio, newspaper, television, magazine) to Internet search advertising given dramatic differences in efficacy and returns for advertisers. In 2012, InfoSpace saw revenues grow by more than 50% compared with 2011. With TaxACT, the business continues to benefit from the ongoing migration of tax preparation away from paper and professionally-prepared filings toward electronic and self-prepared filings. In 2012, TaxACT saw revenues grow by more than 10% compared with 2011.

In addition to these strongly growing businesses, Blucora benefits from a large "hidden asset"—more than $700 million of net operating loss (NOL) carryforwards (from years ago when the company was unprofitable) that will largely enable Blucora to manage its tax bills over the next decade. As Blucora generates more profits more of the inherent value in the NOLs will be unlocked. Just as this was a significant part of the rationale for Blucora's acquisition of TaxACT, management, started with private equity experience, is actively looking to acquire another profitable business as we write this letter. In fact, Blucora just issued (in March) $200 million of convertible debt to combine with its current net cash of about $150 million for the very purpose of making another attractive acquisition like TaxACT. The issuance of that convertible security was the proximate cause of a temporary drop in the stock price, a catalyst for us to initiate our position at a very attractive entry point.

A further consequence of Blucora's NOLs is that the market valuation of the company does not necessarily appear inexpensive on the surface. The company's non-cash tax expense combined with other non-cash expenses (*e.g.*, amortization of intangibles from the acquisition of TaxACT) causes Blucora's reported GAAP[1] earnings to be dramatically lower than its cash earnings. As a result Blucora Common will likely miss those investor screens dependent on earnings-based analysis. In our case, we were able to invest in Blucora at a valuation of less than five times the company's trailings adjusted EBITDA[2], a multiple normally attached to shrinking or highly cyclical companies.

Shortly after the Fund's quarter-end, Blucora reported strong results for its own fiscal first quarter with continued growth in both of its businesses (as well as market share gains in the case of TaxACT) and very strong free cash flow generation. We expect that the ongoing strength within the two businesses and/or another acquisition by the company will continue waking investors up to this special situation holding.

"The First Principle is That You Must Not Fool Yourself — and You are the Easiest Person to Fool."

–Richard Feynman,
Caltech Commencement Address, 1974

Cheapness is a necessary, but not sufficient, condition for us to invest in a security. The quality of a firm's assets, business and resources—key elements in creating a margin of safety in an investment—are equally, if not more, important. Nowhere is this more relevant than in this quarter's investments in the aforementioned bank common stocks. As with all of our investments, we consider possible alternatives, *i.e.*, we compare one security to another and the businesses underlying the securities. We study the *quality* of a company's assets and liabilities first and foremost in trying to account for discrepancies in valuation, for example. Our analysis leads us to look in places others might not. One such example is illustrated in the table below where our analysis considers Level 3 Assets as a percentage of the banks' net worth, or shareholders' equity and compares them with two of the best known banks in the U.S. GAAP accounting requires banks to separate their assets into three levels of inputs when determining "fair value." Level 3 Assets are nettlesome from the viewpoint of the investor/analyst because they rely almost entirely on management estimates and assumptions. They do not rely on market prices, but models generated by management. As JP Morgan's 2012 10K describes Level 3 Assets:

> "Estimating fair value requires the application of judgment. The type and level of judgment required is largely dependent on the amount of observable market information available to the Firm. For instruments valued using internally developed models that use

[1] Generally Accepted Accounting Principles
[2] Earnings Before Interest, Taxes Depreciation and Amortization

significant unobservable inputs and are therefore classified within level 3 of the fair value hierarchy, judgments used to estimate fair value are more significant than those required when estimating the fair value of instruments classified within levels 1 and 2. In arriving at an estimate of fair value for an instrument within level 3, management must first determine the appropriate model to use. Second, due to the lack of observability of significant inputs, management must assess all relevant empirical data in deriving valuation inputs—including, but not limited to, transaction details, yield curves, interest rates, prepayment speed, default rates, volatilities, correlations, equity or debt prices, valuations of comparable instruments, foreign exchange rates and credit curves. Finally, management judgment must be applied to assess the appropriate level of valuation adjustments to reflect counterparty credit quality, the Firm's creditworthiness, constraints on liquidity and unobservable parameters, where relevant."

	Shareholder Equity 12/31/2012 ($ Millions)	Level 3 Assets 12/31/2012 ($ Millions)	% Equity
Commerce Bancshares	$2,172	$195	9.0%
Cullen/Frost	$2,417	$0	0.0%
City National	$2,505	$65	2.6%
Goldman Sachs	$75,716	$47,095	62.2%
JP Morgan	$204,069	$99,148	48.6%

Source: Company 10Ks

"Cheapness is a necessary, but not sufficient, condition for us to invest in a security. The quality of a firm's assets, business and resources—key elements in creating a margin of safety in an investment—are equally, if not more, important."

As can be seen in the table, Level 3 Assets comprise a very large portion of the equity for JP Morgan and Goldman Sachs, two stocks with large, value investor constituencies represented among their shareholder base. In the case of the bank stocks owned by the Fund, a dent in the Level 3 Assets could never imperil the banks' capital while the high levels found at the large banks, in our view, raise real questions about their asset quality. The consideration of Level 3 Assets and what it might mean for an investor is just one facet of our analysis, one that speaks to our naturally conservative tendencies and, perhaps, separates us from many of our peers.

We look forward to writing you again when we publish our Third Quarter report dated July 31, 2013. Thank you for your continued support.

Third Avenue Small-Cap Value Fund Team

Curtis Jensen—Lead Portfolio Manager
Tim Bui
Charlie Page

Third Avenue Real Estate Value Fund
(Unaudited)

Dear Fellow Shareholders:

We are pleased to provide you with the Third Avenue Real Estate Value Fund's (the "Fund") report for the quarter ended April 30, 2013.

QUARTERLY ACTIVITY

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

Number of Shares or Contracts or Units or Principal Amount	New Positions
AUD 117 million	Australian Dollar Calls (sold) expiring May 2013 to June 2013 ("Aussie Calls")
AUD 117 million	Australian Dollar Puts (bought) expiring May 2013 to June 2013 ("Aussie Puts")
88,747 units	Brookfield Property Partners L.P. Limited Partnership ("Brookfield Property L.P.")
1,294,416 shares	Commonwealth REIT Common Stock ("Commonwealth REIT Common")
EUR 20,400,000	IVG Finance BV 1.75% Convertible Bonds due 3/29/17 ("IVG Convertible Bonds")
2,000,000 contracts	Forest City Enterprises, Inc. 9/20/13 $18 Calls (sold) ("Forest City $18 Calls")
1,000,000 contracts	Forest City Enterprises, Inc. 9/20/13 $19 Calls (sold) ("Forest City $19 Calls")
1,000,000 contracts	Forest City Enterprises, Inc. 9/20/13 $20 Calls (sold) ("Forest City $20 Calls")
292,500 contracts	Forest City Enterprises, Inc. 9/20/13 $15 Puts (bought) ("Forest City $15 Puts")
2,470,200 contracts	Forest City Enterprises, Inc. 9/20/13 $16 Puts (bought) ("Forest City $16 Puts")

Number of Shares or Contracts or Units or Notional Amount	New Positions (continued)
1,245,000 warrants	PNC Financial Services Group, Inc. Warrants expiring 12/31/18 ("PNC TARP Warrants")
910,528 warrants	Wells Fargo & Co. Warrants expiring 10/28/18 ("Wells Fargo TARP Warrants")
	Increased Positions
94,497 shares	Hyatt Hotels Corp. Common Stock ("Hyatt Common")
334,076 units	Newhall Holding Company LLC Common Units ("Newhall Common")
	Positions Decreased
700,000 shares	Brookfield Asset Management, Inc. Common Stock ("Brookfield Common")
33,961 units	Brookfield Property Partners L.P. Limited Partnership ("Brookfield Property L.P.")
1,000,000 units	Newhall Holding Company LLC Common Units ("Newhall Common")
	Positions Eliminated
AUD 148 million	Australian Dollar Calls (sold) expired February 2013 through March 2013 ("Aussie Calls")
AUD 148 million	Australian Dollar Puts (bought) expired February 2013 through March 2013 ("Aussie Puts")
3,336,000 shares	Daibiru Corp. Common Stock ("Daibiru Common")
2,000,000 contracts	Forest City Enterprises, Inc. March 2013 $20 Calls (sold)—Expired ("Forest City $20 Calls)

Portfolio holdings are subject to change without notice. The following is a list of Third Avenue Real Estate Value Fund's 10 largest issuers, and the percentage of the total net assets each represented, as of April 30, 2013: Forest City Enterprises, Inc., Class A, 8.52%; Cheung Kong Holdings, Ltd., 4.44%; Newhall Holding Co. LLC, Class A, 4.02%; First Industrial Realty Trust, Inc., 3.88%; Weyerhaeuser Co., 3.56%; Wheelock & Co., Ltd., 3.44%; Lowe's Cos, Inc., 3.33%; Hammerson PLC, 3.31%; Westfield Group, 3.26%; and Henderson Land Development Co., Ltd., 3.22%.

Number of Shares Principal Amount or Notional Amount	Positions Eliminated (continued)
2,000,000 contracts	Forest City Enterprises, Inc. March 2013 $18 Calls (sold)—Expired (“Forest City $18 Calls)
4,000,000 contracts	Forest City Enterprises, Inc. March 2013 $15 Puts (bought)—Expired (“Forest City $15 Puts)
36,336 contracts	Hang Seng Property Index March 2013 Puts (bought)—Strike prices HKD27,244 to HKD27,624—Expired (“Hang Seng Puts Bought”)
36,336 contracts	Hang Seng Property Index March 2013 Puts (sold)—Strike prices HKD22,942 to HKD23,262—Expired (“Hang Seng Puts Sold”)
24,713,436 shares	Mirvac Group Common Stock (“Mirvac Common”)

DISCUSSION OF SIGNIFICANT QUARTERLY ACTIVITY

During the quarter, the Fund initiated new positions in the common stock of a U.S. REIT (Commonwealth REIT Common), the convertible debt of a German real estate operating company (IVG Convertible Notes) and the common stock warrants of two U.S. banks (PNC Warrants and Wells Fargo Warrants). The Fund eliminated its positions in the common stocks of a Japanese real estate operating company (Daibiru Common) and an Australian REIT (Mirvac Common). In addition, the Fund renewed its options on Forest City Common by selling out-of-the-money covered calls and buying out-of-the-money puts (downside hedge) and continues to hedge its exposure to the Australian Dollar.

PORTFOLIO HIGHLIGHTS

Commonwealth REIT

Commonwealth REIT is a U.S.-based real estate investment trust that controls a wholly-owned portfolio of 47 million square feet of office and industrial properties. In addition, the company has a 56% ownership interest in separately-listed Select Income REIT, which owns approximately 25 million square feet of net leased, single tenant office and industrial properties in the continental U.S. and Hawaii. Both Commonwealth and Select Income are externally managed by REIT Management & Research LLC (RMR), which does not own a meaningful equity stake in either entity. In our view, Commonwealth REIT Common has persistently traded at a discount to NAV largely due to its external management structure, which we believe creates a misalignment of interests between shareholders and management. The management fee structure incentivized the manager (i) to acquire assets regardless of the price paid, strategic rationale, or even the ultimate success of the investments, and (ii) to raise additional equity regardless of dilution to common shareholders. Notwithstanding the relatively strong financial position and the stock trading at a large discount to NAV, many institutional investors and sell-side analysts considered Commonwealth REIT Common to be “uninvestible”. We had previously been in that camp.

Recently, though, two activist shareholders began agitating for a change in management and have initiated a proxy contest to remove the company’s entire board of directors (which requires a two-thirds vote of shareholders). Their goal is to replace all of the directors, eliminate the external manager and “internalize” management with a properly incentivized team of real estate executives. The activist shareholders also offered to acquire the company at a substantial premium to the market price. Shortly after the activist shareholders announced their intentions, the company completed a highly-dilutive offering of common shares and implemented changes to its company by-laws, specifically intended to thwart the imminent proxy contest. The company’s defensive moves are being challenged in court, but the two shareholders have proceeded with the proxy contest (which the company contends is invalid).

We support the activist shareholders and believe there is a high likelihood they will be successful in changing the composition of the board and internalizing management over time. The installation of shareholder-friendly management and a new board, along with drastic improvement in corporate governance, should help to narrow the discount to NAV. The Fund acquired Commonwealth REIT Common shortly after the activist shareholders announced their intentions. The Fund also acquired additional shares in the company's dilutive equity offering. The Fund's average price per share represents a significant discount to conservative estimates of NAV and a discount to the activist shareholders' bid to acquire the company. We view the investment in Commonwealth REIT Common as a "risk arbitrage" situation. The downside (if the proxy contest fails and the current management remains in control) is probably a 20% to 25% loss on the investment (assuming the stock price reverts to the level prior to the activist shareholders' announcement); while the upside (if the proxy contest is successful) might be a 60% or greater gain over 18 to 24 months.

"Some of the highest-quality banking franchises have common stock prices trading around book value, or theoretical liquidation value."

TARP Warrants—PNC and Wells Fargo

As noted in last quarter's report to shareholders, we continue to look for real estate-related securities that would not only preserve capital in a rising interest rate environment, but potentially benefit. In this regard, we have been analyzing some U.S. regional and super-regional banks, which have a large majority of their assets invested in commercial and residential real estate loans, with the knowledge that the current low interest rate environment is resulting in historically low returns on equity and price-to-book ratios. Some of the highest-quality banking franchises have common stock prices trading around book value, or theoretical liquidation value. We believe that banks with strong franchises will likely prove capable of increasing their net interest margins should loan demand pick up and interest rates rise from current levels (resulting in higher ROEs, price-to-book ratios and higher stock prices).

Our research has revealed that a handful of U.S. banks still have "TARP warrants" outstanding. These are securities that were originally issued by the banks to the U.S. Treasury during the financial crisis as part of the Troubled Asset Relief Program ("TARP"). The warrants provide the holder the right to purchase common stock in the bank at a set price for a 10-year period. In effect, the warrants are extremely long-dated call options. Recently, in order to recoup its investment, the Treasury has either sold the warrants back to the banks or to the public markets via auctions. The auctioned warrants became publicly traded securities and still have very long durations, with five to six years remaining until they expire. Market prices for most of these warrants have largely declined since they were first auctioned due to depressed prices for the underlying common stocks and lower market volatility, notwithstanding the banks' fundamental attributes and long-term growth prospects. Given that dynamic, the Fund initiated positions in the TARP Warrants of Wells Fargo and PNC Financial Services, two banks with incredibly strong banking franchises. We believe these securities will provide excellent returns in a "base case" and could generate exceptional returns should our thesis outlined below play out.

To illustrate, here is our base case for the PNC warrants: The Fund purchased the warrants for approximately $11 each. Each warrant provides the Fund with the right to purchase one share of PNC Common stock at $67.33 per share at any time through December 31, 2018. PNC's book value is currently $68 per share, which we conservatively estimate will increase by 8% per year (net of dividends paid). At April 30, 2013, PNC Common traded at $67.88 per share (1 times book value). Simply compounding book value at 8% per year would result in a book value of about $105 per share at the end of 2018. We assume that PNC Common will continue to trade at 1 times book value, or $105 per share at expiration, resulting in each warrant having an intrinsic value of approximately $38 ($105 minus $67.33). Our base case would result in a 25% IRR over the life of the investment, or a 3.5 times multiple on the original $11 invested.

We believe our base case assumptions are fairly conservative in that we do not project increasing ROE or the common stock trading in excess of 1 times book value. It seems likely that if banking profits improve (higher ROE), stock prices could trade at 1.5 to 2 times book value, which would result in an exceptional return on the warrants. For example, if book value per share is $125 and PNC Common trades at 1.5 times book value at the end of 2018, each warrant would have an intrinsic value of about $120, or nearly an 11 times multiple on the original $11 investment (41% IRR over 5+ years).

The potential returns on TARP Warrants appear very compelling, but we also bear in mind that they could ultimately prove worthless should the banks record significant impairments, the ROEs fall further or the price-to-book multiples decline. However, we view the prospects of a "zero" to be quite remote given (i) the starting point of depressed ROEs and low price-to-book multiples and (ii) our focus on Wells Fargo and PNC, both of which are well-capitalized and well-managed banks with strong franchises that should allow them to continue compounding book value per share over the life of the warrants. Nevertheless, we have decided to limit the Fund's investment in TARP Warrants to 2% of the Fund at cost. While small today, they have the potential to grow into much larger positions over the next few years. We are always happy when a 2% position appreciates to become a top-ten holding in the Fund.

IVG Convertible Bonds

We continue to evaluate investment opportunities in Continental Europe. The Fund's exposure to the region is currently limited (less than 5% of net assets). Our limited exposure to Europe isn't necessarily due to our "top down" view of the region. Rather, it is a byproduct of our "bottom up" research that leads us to the conclusion that most real estate companies in Europe have higher debt levels than we are comfortable with and they are not "value-priced" based on actual cash flows as opposed to "appraised" values. While these conditions may persist in the near term, we continue to keep close tabs on the region as we expect many companies will seek to repair their balance sheets by raising external capital that could provide attractive returns for those assisting in the process (much like the U.S. and U.K. property companies did in 2009 and 2010).

IVG Immobilien AG ("IVG") is one of the largest German property companies and one that we have followed for nearly five years because of its unique assets, including a large German office portfolio, one of the leading real estate investment management platforms in Europe, and an infrastructure business comprised of oil and gas storage facilities in northern Germany. Despite the company's collection of high-quality assets, IVG's common stock has persistently traded at a significant discount to its published NAV. However, the Fund has never owned IVG common stock because we believed the debt levels would ultimately prove insurmountable. It was a classic case of "good assets" with a "bad capital structure." It took a few years, but our thesis proved to be correct. The company recently announced that it intends to take measures to restructure its balance sheet with the realization that it will not be able to pay off more than €1 billion of debt maturating in 2014.

Following the company's announcement, the prices for all of IVG's securities (secured bank debt, convertible notes, preferred stock and common stock) fell dramatically. Our analysis determined that the IVG Convertible Bonds were most likely the "fulcrum" security in the capital structure. In other words, holders of the IVG Convertible Bonds are likely to participate in a debt-for-equity restructuring, and the subordinated securities (preferred and common) would retain little or no value. IVG Convertible Bonds mature in 2017, but holders have an option to put the bonds to the company in 2014. The Fund purchased approximately 5% of the outstanding IVG Convertible Bonds at an average cost of sixty-eight cents on the dollar. As a larger holder, we anticipate having a seat at the table with the company and other creditor classes in determining appropriate restructuring terms if it comes to that. It is still too early to determine whether a sensible restructuring will be completed out-of-court or in-court (through German insolvency proceedings, which are similar the U.S. Chapter 11 bankruptcy). In either case, the Fund will assist the process and is prepared to participate in a rights offering for new equity or similar efforts to right-size the company's balance sheet for stability and future growth.

Newhall Holding Company LLC Update

As we noted in our October 31, 2012 report to Fund shareholders, based on the limited trading of Newhall Common, the implied equity market capitalization of Newhall Holding Company LLC was approximately $412 million. We highlighted a "back of the envelope" calculation indicating that the net asset value based on current market conditions should easily be in excess of $1 billion. We also illustrated how house price inflation can translate into much more dramatic lot price appreciation. In our report, we illustrated how a 20% increase in house prices could result in more than a 100% increase in lot prices. According to Case-Shiller, Los Angeles has seen the largest drop in for-sale home inventory and has the most positive home price outlook (14% in 2013) of major U.S. cities. The prospects for a continued U.S. housing recovery have resulted in high demand from homebuilders for buildable lots in major markets and corresponding demand from investors in public and private companies that control land for residential development. Despite its quasi-private status, investor demand for Newhall Common has recently surged, trading has been more active and recent trading prices now reflect an equity market capitalization of over $800 million —nearly double the price six months earlier. The Fund sold 1 million units of Newhall Common during the quarter (approximately 3% of its position) after it received an unsolicited bid from a buyer actively seeking to establish a position. At quarter-end, Newhall Common was the Fund's third largest holding (4.1% of net assets) and we have no intention of further reducing the position at current prices. While the company still has some land entitlement issues to resolve, we are very confident that Newhall Ranch will be one of the few major providers of residential lots in Los Angeles for the next 15 to 20 years.

"The prospects for a continued U.S. housing recovery have resulted in high demand from homebuilders for buildable lots in major markets"

With investments like Newhall, IVG Bonds, and the TARP Warrants, among others, the Fund continues to offer exposure to a diversified portfolio of real estate securities that are attractively priced and quite differentiated relative to other global real estate funds. As we have stated in past letters, the Fund doesn't hold these unique holdings just for the sake of being different. Instead, we take full advantage of the Fund's flexible mandate to get exposure to real estate and real estate related securities that offer a compelling risk-adjusted return profile. Since the Fund can cast a wider net than most, it is our view that the portfolio is still comprised of securities that trade at discounts to conservative estimates of net asset value despite recent appreciation, which is in stark contrast to a large portion of the global real estate universe that is currently trading at large premiums to net asset value (i.e., US and Japanese REITs) even though the Fund's holdings having superior growth prospects in Fund Management's opinion (e.g., Forest City Enterprises, Weyerhaeuser, Westfield Group, Cheung Kong, Songbird Estates, etc.).

In addition to having investments in real estate securities that trade at sensible prices, and largely concentrated in companies that offer attractive growth prospects, the Fund continues to hold higher than average cash balances at 18% of net assets. This dry powder will continue to selectively be redeployed into "one-off" opportunities as they arise (e.g., IVG Bonds) or more deliberately invested should there be any sort of market dislocation, similar to 2008-2009 or 2011, that provides the Fund with more attractive pricing. Our experience tells us that the timing of these types of events is impossible to predict but yields incredible investment opportunities for those with cash and a longer-term outlook when they occur.

We thank you for your continued support and look forward to writing to you next quarter.

Sincerely,

Third Avenue Real Estate Value Fund Team

Michael Winer—Lead Portfolio Manager
Jason Wolf—Lead Portfolio Manager
Ryan Dobratz

Third Avenue International Value Fund
(Unaudited)

Dear Fellow Shareholders,

In the most recent quarter, the Third Avenue International Value Fund (the "Fund") purchased one new position, sold covered call options on one investment, increased one position, eliminated one investment and, in response to a partial redemption from a large shareholder, reduced exposure to 35 investments in a manner which we believe maintained the desired portfolio concentration (as these reductions were broadly based and largely designed to preserve the weightings of investments, we have omitted the traditional list this quarter).

Number of Shares or Contracts	New Positions Acquired
2,551,000 contracts	Daiwa Securities Group, Inc. October 2013 Calls (sold) - Strike price JPY 880 ("Daiwa Calls")
173,261 shares	D'Ieteren S.A/N.V. Common Stock ("D'Ieteren Common")
	Position Increased
204,490 shares	Leoni AG Common Stock ("Leoni Common")
	Position Eliminated
413,514 shares	Petroleum Geo-Services ASA Common Stock ("PSG Common")

REVIEW OF QUARTERLY ACTIVITY

We initiated a position in D'Ieteren Common, a Belgian-based holding company. The company has long been the exclusive Belgian importer of Volkswagen brands, including Volkswagen, Audi, Skoda, Bentley and Porsche, and also has a significant retail distribution presence within the country. In total, D'Ieteren imports nearly a quarter of the automobiles sold in Belgium annually.

Separately, with its initial acquisition of auto glass repair business Belron in 1999 and many subsequent acquisitions, D'Ieteren controls by far the largest vehicle glass repair and replacement business in the world. Belron is active in 34 countries and is capable of covering the repair and replacement needs of 75% of the world's automobiles. It is unrivaled in scale and is therefore able to provide a uniquely attractive service to auto insurance company partners. The relatively asset light business model and superb execution have enabled Belron to produce large amounts of unencumbered cash flow and the management team's track record of profitable growth is outstanding.

In more recent developments, D'Ieteren was able to sell Avis Europe in 2011 in what could be described as an attractive sale. The cash transaction recapitalized D'Ieteren and shed its least attractive business. That positive development aside, recent European auto market declines combined with unusually mild weather—bad weather is good for the auto glass repair business—in several of Belron's primary geographic exposures, conspired to depress operating results and in turn D'Ieteren's stock price. We expect that, over the long-term, the operating results of D'Ieteren's underlying businesses will demonstrate that the current depression was cyclical in nature and that the company's stock price will come to more closely reflect the value of those businesses.

We have sold out of the money call options against a portion of our position in Daiwa Securities. At the time of this writing Daiwa shares have appreciated by 87% year-to-date in Japanese yen terms. While the appreciation is very large—257% in the last twelve months in Japanese yen terms—the valuation at the starting point was absurdly low and at today's value of 1.6x book value while the company is operating at a run rate return on equity of 23%, the company does not appear to us to be expensive and we are not yet at the point of parting with our investment. Therefore, we have effectively

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Portfolio holdings are subject to change without notice. The following is a list of Third Avenue International Value Fund's 10 largest issuers, and the percentage of the total net assets each represented, as of April 30, 2013: Straits Trading Co., Ltd., 7.27%; Daiwa Securities Group, Inc., 6.09%; Weyerhaeuser Co., 4.12%; Taylor Wimpey PLC, 3.98%; Netia S.A., 3.81%; Sanofi, 3.51%; Leucadia National Corp., 3.50%; Munich Re, 3.10%; White Mountains Insurance Group Ltd., 3.07%; and Mitsui Fudosan Co., Ltd., 2.98%.

sold a portion of the upside should the investment continue to appreciate while collecting income in the meantime, which would serve to mitigate some of the depreciation should the stock price decline.

The Fund sold its investment in Petroleum Geo-Services ("PGS"), an investment initiated in summer 2011, just after the BP/Macondo oil spill led to a temporary halt in Gulf exploration and production activities. As the world's largest provider of offshore seismic mapping and analysis, PGS and its peers saw their share prices tumble in the immediate wake of the spill as the dearth of activity in the Gulf of Mexico, which typically consumes a material portion of global offshore seismic capacity, created a global supply glut. We were able to purchase these shares at depressed valuations and have since enjoyed a considerable operational recovery with corresponding returns. Now that the stock has reached loftier valuations, we closed the books on this investment and have turned our sights to other opportunities.

THE ART OF NAV

When discussing the Fund's portfolio we very frequently make reference to a company's Net Asset Value ("NAV") as a short-hand for our assessment of the intrinsic value of the enterprise at hand. NAV is a deceptively simple concept as what a company is ultimately worth can only be assessed relative to the needs and desires of a potential buyer and is, even in its least subjective aspects, dynamic. So, in this letter, we will take the simple-seeming term that we have used time and again in these letters and explore some of its facets, as well as the role our assessment of NAV plays in the analysis and implementation of an investment idea.

The basic definition of NAV is the value of a company's assets net of all of its liabilities, on a per share basis. Some investors who would be included in the value investing camp almost exclusively use reported book value per share as the default measurement. Some companies, particularly investment holding companies and real estate holding or operating companies, will also report an NAV per share as distinct from their accounting book value. We take note of what companies report as this gives us some insight into how management values its assets and possibly how aggressive or conservative they are in their assessments, but these disclosures are merely data points incorporated into our analysis. Shortcomings of the use of book value as a valuation methodology are numerous due to accounting treatments like historical cost accounting, highly fickle treatment of various tax assets or a complete lack of balance sheet accounting for contingent liabilities, which can materially impact the value of a business, just to name a few examples. In situations where we are dealing with publicly listed securities as the underlying assets of a business, as is the case for some holding companies or investment companies, a judgement as to the propriety of the market values assigned to those holdings becomes important. Further, when management or an independent appraisal firm has considerable discretion with regard to the valuations it assigns to a company's assets, a healthy dose of skepticism is in order—we have experience in situations in which the management team takes a very optimistic view on asset values as well as ones in which the management team willfully downplays the values. The purpose of all of this skepticism and analysis is that we are not just trying to buy any assets at a big discount, but ideally very cheap assets made even cheaper by the discount to NAV at which the shares trade and there is no single publicly disclosed number that is expositive. Considerable adjustment and investor judgment is required.

For us, comfort is derived from our level of analytical conservatism. We generally value businesses on an "as is" basis, without assigning additional value to anticipated increases in future cash flows, revenues or profits. As mentioned above, we are looking for cheap assets or businesses which tend to derive depressed valuations from challenging operating environments and the related depressed profitability. Our analysis leans towards the assumption that the operating challenges will persist which defines our "as is". However, the depressed starting point actually tends to tilt the odds in favor of NAV appreciating in the future.

This approach is in stark contrast to the more common Discounted Cash Flow ("DCF") analysis, where future results, typically indicating some type of growth of operating performance are projected and then discounted to a present value often reflecting a modicum of optimism. One glaring difference is that our analysis tends to be balance sheet focused, as compared to a DCF approach which is by definition more focused on projections of future profits. In DCF analysis it is often the case that the perceived cheapness of the investment hinges upon the assumptions embedded in the DCF analysis eventuating in the real world. We would be hard pressed to think of a better example to contrast our approach with the DCF based one than in the previously mentioned Daiwa Securities. We purchased Daiwa at 0.6x adjusted book value towards the end of 2011, book value in this case being a reasonable approximation of liquidation value though attributing no value to considerable brand/franchise value. On the other hand, the stock is now trading at 1.6x book value as the analytical community is faced with the prospect of a rapidly growing income stream from which it can derive a DCF-based NAV. In summary, we simply prefer the anchor of "what is" rather than "what we hope might be".

"Ideally, our investment returns are amplified both by compounding of NAV and by discount closure as whatever had previously depressed the valuation of the underlying assets dissipates over time."

While it may seem slightly esoteric, we should spend a minute or two discussing the judgments embedded within our perception of "what is." In our approach, we attempt to estimate what an informed buyer looking to purchase the company or its assets in an arm's length, non-hyped, cash transaction would reasonably pay. This seemingly simple approach has great value in weeding out a number of analytical mistakes. For example, the level of interest rates and availability of capital have significant consequences with regard to the valuation of many assets—income producing real estate is an obvious one. The approach requires thoughtfulness with regard to the factors which have given rise to "what is", be they interest rates, economic stimulus, government protection or preferential regulatory treatment. It bears repeating that we are looking for cheap securities (available at a discount to a conservative value of the underlying assets) and an understanding of the economic and business factors giving rise to the "what is" valuation informs our sense of what constitutes cheapness.

Admittedly, we have repeatedly used the term "significant discount to NAV" without really describing what defines significant. In truth, the determination that a stock price is sufficiently below NAV such that we decide to purchase the stock is more art than science. Firstly, if w`e are successful at identifying investments where NAV compounds at significant rates, it is a fairly short period of time before the NAV compounding swamps in importance any closure of the discount. Our purchase of Leucadia at a valuation which was a shade below our NAV at the time made perfect sense to us based on the severe cheapness of the underlying assets, significant assets that were not represented on the balance sheet and the quality of the management team. Four years later, Leucadia remains valued at roughly NAV, though the NAV has more than doubled from early 2009 providing us with a return that is roughly equivalent to a scenario in which we had purchased a theoretical stock at a 60% discount to NAV (i.e., at 40 cents on the dollar) and saw the discount completely closed over the holding period. Symmetrically, in cases where the asset base is arguably of lower quality or operated by a management team we would consider more of a wild card, we are of course inclined to demand larger discounts. As an aside, high rates of NAV compounding tend to be associated with smaller discounts (higher prices). Ideally, our investment returns are amplified both by compounding of NAV and by discount closure as whatever had previously depressed the valuation of the underlying assets dissipates over time.

NAV fluctuates based on market conditions and company specific and industry events, and the forces that act on NAV are all dynamic. Generally, though, NAV changes more slowly than securities prices and in this way, longer-term investors like Third Avenue can take advantage of a long-term arbitrage opportunity between current market prices and the dynamic, but slower moving NAV.

The NAV is not just part of the security selection process but also a consideration in our portfolio construction. Once a company enters the portfolio, its NAV is monitored amidst changing conditions and has a role to play in position sizing and as part of the strategy's sell discipline. In no case is it the sole determinant of the investment management process or our portfolio construction decisions. Instead, it serves as something of a starting point for new investments and, for our current holdings, a useful tool in a holistic system of bottom up company analysis.

GEOGRAPHICAL DISTRIBUTION OF INVESTMENTS

At the end of April 2013 the geographical distribution of securities held by the Fund is as follows:

Country	% of Net Assets
Japan	11.97%
Germany	8.77
United States	8.49
Singapore	8.17
France	7.32
United Kingdom	6.40
Hong Kong	4.48
Poland	3.81
Bermuda	3.07
Austria	2.73
South Korea	2.38
Canada	2.35
Switzerland	2.27
Taiwan	2.14
Greece	2.00
New Zealand	1.89
India	1.71
Brazil	1.62
Chile	0.81
Italy	0.68
Belgium	0.60
Equities-Total	83.66
Cash & Other	16.34
Total	100.00%

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

INTERNATIONAL TEAM UPDATE

During the course of the year, the International Team has bid farewell to our co-portfolio manager Jakub Rehor, as well as to analysts John Mauro and Michael Campagna. All were long-time members of the team and will be missed. The newest member of the team begins on May 28th. We will update you on this and potential further hires, in future letters.

Thank you for your continued trust and support. We look forward to writing to you again when we publish our quarterly report for the period ending July 31, 2013.

Sincerely,

Third Avenue International Value Fund Team

Amit Wadhwaney—Lead Portfolio Manager
Matthew Fine

Dear Fellow Shareholders,

While we never focus on short-term performance, the Third Avenue Focused Credit Fund finished its second fiscal quarter in the top percentile of performers in Morningstar's U.S. High Yield Bond category both year-to-date and for one year trailing. Most importantly, the Fund has entered the top quartile of performers for the three years ending April 30, 2013.[1] We are pleased to see some of our unique investments contribute to this positive performance.

Global markets had a very strong start in 2013. High yield and loans are no exception. With new issuance and bond prices reaching all-time highs, we are taking a cautious and vigilant stance, looking for signs of excessive risk taking. We have 15% cash in the portfolio that we can access if we see some sort of correction in the markets; the cash also enhances the Fund's liquidity.

"The Focused Credit Fund is unique in the credit space in that 95% of its holdings exhibit mathematical characteristics that make it possible for them to return 10% a year, on average, over the next three years. We are not saying that this will happen, we are saying only that it is possible."

Last quarter we described the extremely active months of 2012, where we invested in select stressed and deep value special situations. We can now update you on some of those investments.

Simmons Foods: One of the top ten producers of chickens as well as dog and cat food (don't read this part at dinner), Simmons came on to our radar screen when corn prices spiked from $5.50 to $8 and chicken prices did not follow. The 2nd lien 10.5% bonds dropped into the mid-80s where we established an almost 2% position yielding 15%. Simmons is a small, private company that is still run with traditional family values. It is a middle market issuer with $265 million of bonds. They have a cost advantage because they use leftover chicken parts to make pet food as a private label manufacturer. Our thesis was and still is that as long as we are a cost competitive producer of quality product, we will be affected no worse than the other market participants, and at some point chicken prices will need to go higher or producers will stop growing them. Simmons also has the benefit of its pet food business that is less dependent on corn prices and helps offset volatility in the chicken business. Since our investment, chicken prices have increased and corn has stabilized. Our bonds are now at trading at par generating a 20% return since we invested 6 months ago. We are still holding them, as we believe they offer the possibility for meaningful returns from here.

Portfolio holdings are subject to change without notice. The following is a list of Third Avenue Focused Credit Fund's 10 largest issuers, and the percentage of the total net assets each represented, as of April 30, 2013: Lehman Brothers Holdings Inc., 6.57%; Energy Future Holdings Corp., 4.73%; Clear Channel Communications Inc., 4.21%; Caesars Entertainment Operating Co. Inc., 3.47%; Vertellus Specialties Inc., 3.12%; Nuveen Investments, 3.09%; New Enterprise Stone & Lime Co. Inc., 2.65%; First Data Corp., 2.61%; Longview Power LLC, 2.59%; and Advanced Micro Devices Inc., 2.57%.

[1] Data according to Morningstar, for the 415 mutual funds included in the High-Yield Bond category over three years, as of April 30, 2012. Morningstar assigns mutual funds to this category if the fund is a bond fund and invests at least 65% of assets in bonds rated below BBB.

Chiquita Brands: The leading producer of bananas in the world. We started purchasing the 4.25% convertible bonds in the mid-70s (13% yield) after they missed numbers and the CEO retired after 10 years with the company. The converts dropped from 95 to 75 as convertible arbitrage hedge funds were faced with the stock dropping from $8 to under $5 and the company looking like it was facing a liquidity issue, along with earnings uncertainty for the next 6-12 months. Lead manager Tom Lapointe has followed this company for many years and seen its many successes and failures. We became the 3rd largest holder of the converts after Oaktree and Pentwater Capital. We believed in the value of the underlying business and knew through our reading of the covenants in the converts that the company had plenty of room to issue more senior debt. Usually we don't look favorably to extra debt coming in ahead of us, but in this case it would provide the liquidity the company needed and we felt the new debt would not push the company into the zone of insolvency. After 9 months, the company is starting to show positive results on its new initiatives, and the converts we own are now close to par generating about a 25% return. We have reduced our position in the converts and bought a small position in the common stock in light of our view of upside from here.

Vertellus: A specialty chemical company with first or second global market share in chemicals used to produce herbicides, insecticides for crop control and Vitamin B-3 for animal and human consumption. We started purchasing the only tradable debt in the capital structure, the 9 3/8% bonds in the high 70's with a 22% yield. The bonds were as high as 105 in late 2011. Vertellus is a middle-market company with about $450mm of debt outstanding. The company got into trouble as new supply of B-3 came on line in Asia, depressing prices for one of their key products. We examined the capital structure and dug deep into their other business, and believed they had the ability to continue to meet their obligations on the bonds and that in the case we were off on timing or liquidity, there was very little debt ahead of or bonds and we would love to own this business through a restructuring of the balance sheet. The situation has improved and is now trading at 93, generating about a 20% return in the past 6 months. We are continuing to hold our investment, as we believe it has the potential for significant additional returns over the next year.

Nextel International: Nextel has been in the high yield market for a long time. They defaulted and restructured in the telecom bust cycle of 2001-2. The stock was a great performer for the distressed funds that held on to the post-reorg equity, climbing from $2 to over $80 in 2007 ($10 billion market value) before the financial crisis. We have followed this company for years. Fast forward to 2012, and the company, whose business is providing cell phone service in Brazil, Mexico and other smaller Central American countries, started to get into trouble. Their markets had gotten considerably more competitive with lower price plans and better products (4-G). Nextel's traditional push to talk and competitive calling to the USA started to lose its appeal. Subscribers stopped growing and started contracting, average rate per user (ARPU) started falling and the company's EBITDA was cut in half. The stock dropped from $40 to $5 and growth and capex plans looked impossible to finance. We focused on the bonds that dropped from 105 to 70. We examined the assets (towers, spectrum rights) and the current cash flow generation potential of the reduced subscriber base. Then we looked at the company's ability to raise additional capital in the debt markets. We purchased the bonds in the low 70s (14% yield) and later participated in a new senior issue from the company at 11 3/8% that helped them shore up their cash needs. The company is also in the process of monetizing several of their non-cash flow producing assets. While there are risks related to the longer term viability of their business plan in an increasing competitive environment, we believe the securities were oversold and the company had multiple avenues to generate liquidity and value. The bonds we purchased at 70 are now at 90 and the 11 3/8 senior bonds are now 114. Both investments have returned 20%-30% since our purchase. We still hold these bonds because of the expected return over the next 6-9 months, but will look to sell and lock in our gains if prices rise or, if we are wrong, we have a stop loss.

Momentive Performance Materials: Momentive Performance Materials (originally GE Advanced Materials) is a private specialty chemical company owned by Apollo Global Management. The company is one of the largest global producers of silicones (well known as economically sensitive chemical commodities) and quartz materials used in semiconductors. Silicones are used in thousands of products in the construction, transportation, personal care and electronics industries. The bonds dropped from the 95-105 area where they traded throughout 2011 and into early 2012 into the 65-75 area in mid-2012 as new capacity that came on line in 2011 started to impact margins and cash flows. We established a core position in the bonds in the low 70s (15% yield), as we believed the company had many levers to pull to maintain enough liquidity to get them through 2014. We also believed the company was in the middle of a bad period of excess supply but that with the improving economy (our thesis for the past 18 months) and eventual absorption of supply, pricing would become more rational and the company would return to its historical profitability. After 9 months of owning the securities and almost 18 months of poor performance, the company recently reported much improved results and a better outlook. Our bonds are now trading at 95 producing more than a 35% return for the Fund. We continue to hold these securities and believe they offer significant return potential from here.

Advanced Micro Devices: AMD has been in our market for a long time, and is a well-known high yield name. For as long as anyone has known this company, it has been the ugly stepsister to Intel and has been rumored to be "on the ropes" and in need of financial help several times. In late 2012, the company faced these times again. The company announced a significant loss and that it was cutting 15% of its work force in order to preserve capital and right size the business for what was going to be 6-18 months of negative cash flow and no guidance as to when all the bleeding would stop. The stock had been sliding throughout the year from $8 to a low of $2. The bonds dropped from 100 to 78-80. We had seen this movie before, but each time you see it, there is real fear and uncertainty. There are new reasons why this time could be different and buying into these situations takes conviction in your analysis and patience that your thesis will take time to play out along with the acceptance that you are sure to look dumb while the securities go lower than your original purchase price. We started buying in the high 70s and established a core position in the low 80s (11% yield). While AMD is still not out of the woods, they have started to win some new significant clients and the cash on the balance sheet looks sufficient at $1 billion, given their cash needs of about $250 million next year. The bonds are now trading at par and we have generated a 30% return over our 6 month holding period. We are still holding the securities; the bonds are not callable and have 2022 maturity. We believe they have the potential to return significantly more over the next 12 months.

These six investments are just a sampling of the types of securities we are buying that have contributed to performance in the last quarter.

THREE RESTRUCTURINGS—THREE DIFFERENT OUTCOMES

We have ten investments in the Focused Credit Fund in some phase or form of restructuring. During the past 4-5 months, three of them have come close to a resolution. We purchased Geokinetics, Gatehouse and Synagro debt at discounted prices expecting they would default and that our debt would be exchanged for equity in a better capitalized, reorganized entity.

Geokinetics: This company supplies seismic data to the oil and gas industry and began struggling financially and operationally in 2011 due to low crew utilization, project delays, and a fatal accident in Mexico. With only a small amount of bank debt ahead of us, we invested in what we believed would be the fulcrum security (there was sponsor equity and preferred equity junior to us). Our initial investment was about nine months ago at 40 cents on the dollar, and we increased the position when the company was unable to pay the coupon on our 9.75% senior secured notes in December 2012. We actively participated in a dialogue with several other hedge funds, resulting in a prepackaged bankruptcy filing in March 2013. Pursuant to the plan, we received equity in the reorganized company. In addition, we participated in our pro rata share of a $25 million DIP financing facility paying 9.25% interest and ultimately converting into additional equity in the reorganized company at a discount of 20% to the plan value. The equity we received is currently priced at about a 1x EV/EBITDA discount to peers, based on depressed earnings and a business in the early stages of an operational restructuring. This position has returned about 15% and we believe it has substantial upside from its current mark.

Gatehouse Media: We acquired first lien bank debt issued by Gatehouse Media – an ultra-local newspaper company, last year at approximately 30 cents on the dollar, which created our position at an attractive multiple of EBITDA. Our original investment thesis was that the ultra-local market is relatively protected from the advertising declines seen in the major market newspapers and that we would welcome the opportunity to own the de-levered business at that level through a debt-for-equity exchange.

When the bank debt traded up to the high 30% range, we reevaluated our position and, given our lack of conviction in future growth potential, we believed that our investors were better served by taking a material gain in the position and moving on. Our return on the investment was 25-30%. While owning post reorganization equity can extract superior gains, sometimes, we believe it is prudent to take our profits and look for new investments.

Synagro: Synagro is a waste management company - it processes and distributes municipal waste, including human waste, chemical run-off, and manufacturing waste-and was LBO'd by the Carlyle Group in January 2007 for about $770 million. Municipal financial woes and operational problems, including losing contracts with Detroit and New York City, contributed to a default and an April 2013 Chapter 11 filing. Using the additional time provided by a waiver from lenders (deep value and hedge fund investors, including us), the company worked with financial advisors to execute a sale of its assets pursuant to section 363 of the Bankruptcy Code. The stalking horse bid was submitted by an arm of the Swedish private equity group EQT for $455 million – and was high enough to enable the Company to pay off our investment in the 1st lien term loan in full. Despite its relatively low yield (LIBOR+200 trading in the 80s), we believed our investment was covered, or would hold the keys to the company in the event of a reorganization. The investment has not played out exactly how we how we expected. But the downside was very limited, so risk-adjusted, the return of about 14% (20% IRR) so far for our investors, is respectable this environment.

FANNIE MAE AND FREDDIE MAC PREFERRED SHARES

Among the Fund's top performers during the quarter were our preferred shares in mortgage lenders Fannie Mae and Freddie Mac. We established a 30 basis point position in these names two years ago, when they traded for 5 cents on the dollar. The position has appreciated to triple our original cost.

The unfortunate truth about Fannie and Freddie is that, against the wishes of many of the Senators and Congressional reps in the U.S. government, these mortgage insurers provide vital services to the economy, to homeowners and to voters. They have a combined $5 trillion balance sheet that cannot be duplicated. They are larger than Bank of America, Citigroup and Wells Fargo combined.

Our original investment thesis on FNMA/FMCC has not changed. These are nearly impossible institutions to replace, recreate or eliminate. They are the ultimate U.S. housing price recovery play. They have an incredible cost of capital advantage (thanks to the quasi-government guaranty). They have gone back to sound loan underwriting practices and standards since 2009. They are winding down their book of bad loans created in the 2005-8 timeframe. They have taken significant reserves over the years that may start to reverse if defaults decline and recoveries increase. They have lawsuits against people that sold them bad loans, and will probably recover something. Most importantly, they have become profitable again.

This has always been a political risk that can go either way based on the swipe of a pen and the political winds that are blowing at that time. Against this political risk, we have the facts on our side (helpful but not always sufficient).

When the government rescued/invested in these companies, they arbitrarily decided that they would insert senior preferred securities charging 10% and that our public preferred securities would be subordinated and that coupons would be turned off. During the fast and fearful times that were late 2008, when Bear, Lehman, GM, AIG and 10 others were imperiled, the government did not treat everyone or every situation equally. Some were merged, some had equity injected, some were only charged 5% interest, and the Government's investment came in at different places in the capital structure. At the time, as an investor, it was hard to tell how any government investment might impact the other securities in the capital stack.

Today there is a relatively easy and equitable solution that is good for our government, good for homeowners (voters) and good for investors. In the next 2-6 quarters, it is possible that both of these companies will have earned enough to repay our government the full amount that was injected over the past few years.

Someone (running for office) will soon realize that they can stand in front of a camera and tell the American public that the taxpayer has recovered 100% of their investment in Freddie and Fannie. That the loan underwriting standards that had protected these companies for decades had been returned and now defaults and delinquencies are running at all-time lows.

If the government decides to extinguish those Senior preferreds after getting a full return of capital (but no return on capital) all of that value will drop to the public preferred securities we own and they will be worth par ($25 or $50) versus where they are trading now $4-$8 (15 cents on the dollar). That will result in a 6-7x return from here.

There is more—after the Government gets repaid on their preferred and our public preferred trades to par, there will still be value left over for the common stock. Our Government still owns 80% of both companies, (the rest is public) Looking at Fannie Mae, they are currently generating $30 billion pretax profit annually. They borrowed $117 billion of senior preferred from the Government and have returned $95 billion of that. Within the next year, they are on track to fully repay that investment. There are only $19 billion of the public preferred that we own. The stock has a market value of about $5-6 billion. The common stock could be worth well north of $100 billion if the Government preferreds are extinguished after full repayment – that means the stock, with 5.8 billion shares outstanding could be worth $17-20 per share vs. the $1+ or so it has recently been trading.

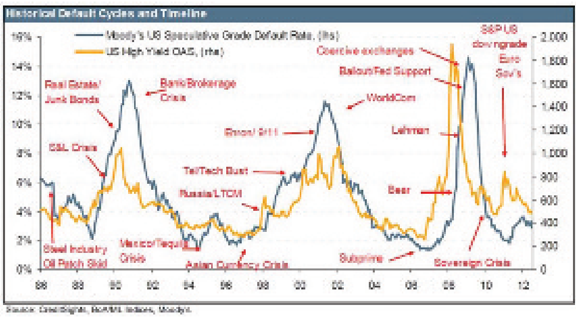
Thankfully we do not live in Argentina, China, or some other country that likes to seize and run private companies indefinitely. At some point we will realize that these companies need to be returned to the public markets – and fortunately for taxpayers, our government can get all their initial investment returned and make a significant profit on the equity.

THE ECONOMY

We believe that the U.S. economy is doing slightly better than people give it credit for. We think there are several industries that are doing well to very well:

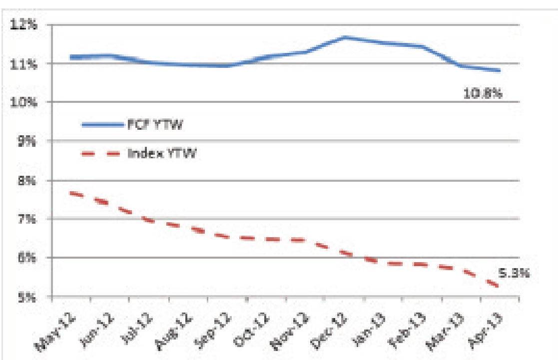
- Housing—we are seeing a real sustainable recovery in housing prices that should have significant add on effects to other industries and help drive growth.
- Fracking—Regardless of your political position, fracking is for real and it is causing growth in multiple oil and gas and chemical related industries.
- Autos—Perhaps for the same reasons that housing is seeing a lift, the low interest rate environment and higher employment levels is causing people to trade in that junker and buy a new car.

This supports a continued, low default environment, but that does not mean we will not find distressed special situations. In between larger cyclical default waves, there are dozens of smaller industry specific or sub- industry defaults. These are usually caused by companies overbuilding one to three years earlier. Fiber, movie theaters, shipping and casinos are a few examples. The other major category is cyclical industries impacted by commodity prices – steel, paper, oil and gas, and chemicals are some of the obvious ones. There are always company specific meltdowns.



Meanwhile, as yields have contracted for the high yield markets, the Fund has consistently found higher paying issues to invest in.

Merrill Lynch High Yield Index vs. Focused Credit Fund (Yield-To-Worst)



DO THE MATH

Investing in fixed income assets should be easy as bonds and loans are among the rare investable assets where an investor can calculate a return, to the penny, and to a specific call or maturity date, provided that borrower meets its obligations.

But if it is so easy, then it would be unlikely, in a world where a 50 basis points differential in performance can represent the gap between a good and a bad investment manager, that people like Bill Gross, Jim Grant, Jeff Gundlach and Dan Fuss are paid multiples of what most equity fund managers make. Today, fixed income is riskier than it has ever been. We define risk as the probability of losing money over time (we generally think in terms of one to three years). Others might define risk in terms of beta, standard deviation, volatility or in terms of relative performance against a benchmark.

Investors are relying on these low yielding investment grade bonds as their anchor to windward. They expect capital protection and a little more income than is currently available elsewhere. As rates have fallen, prices for these bonds have risen. That has been the source of return in a low inflation environment. But, it is more than a fair bet that we will see higher inflation and higher interest rates in the next ten years than we have in the previous decade. There is no probability that the Barclays U.S. Aggregate Bond Index, at current prices, can return more than 2% per year (before fees) for the next 10 years. The Barclays Agg is $17 trillion in size, similar to the Russell 3000 (largest stocks in US) of $19 trillion. Someone owns that $17 trillion of bonds (and it is not just China and the Fed).

Meanwhile, 98% of the floating rate loan market is paying under 5.5%, which really comes out to between 4.5-5% after fees. No interest rate protection kicks in until these loans hit the LIBOR floor, which is around 2%. So, there is little protection or potential for excess return there. Loans also exhibit "negative convexity," which is a pseudoscientific sounding way of saying that the borrower has great leeway in terms of when they pay you. If business is going well and better financing is available, the borrower can take you out and refinance the loan with no gain to the investor. If business goes badly, they can hold out for the 8 year duration of the loan, leaving you to either sell at a loss or to white knuckle it as you try to figure out if the loan will stay current.

In the high yield markets, only 20% of the bonds outstanding can mathematically generate an annualized 10% return over the next two to three years. The average yield in the high yield market is about 5.5%. Most high yield mutual funds closely track the indexes and the average yields. For investors who not only want but need higher income, there are few options.

The Focused Credit Fund is unique in the credit space in that 95% of its holdings exhibit mathematical characteristics that make it possible for them to return 10% a year, on average, over the next three years. We are not saying that this will happen, we are saying only that it is possible. You have to start with what is possible. In a world of bad looking math, the one thing you know for sure is that zero probability equals zero possibility. The Barclays Agg cannot return 10% a year over the next three years. There is no math that makes it possible. This will have huge ramifications for pensions, retirement accounts and all savers globally.

LIQUIDITY

Clients have been asking lately about the liquidity of the Fund and its underlying investments, so we thought it would be helpful to tell you how we think of liquidity. The Focused Credit Fund is a `40 act mutual fund and any investor can ask for and receive net asset value for their shares on any business day they wish. The vast majority of the portfolio is comprised of performing credits, even if they are trading at prices that anticipate stress or distressed. Performing credits are, in our experience, liquid. Other issues, like Lehman Brothers, might be defaulted securities but are liquid by virtue of the size of the issuance. Even though the fund favors less trafficked “off the run” securities, we do pay attention to the size of the issue outstanding, to insure that there is a market for our investments. We also sit on at least 5% cash (under normal conditions) and our team has experience managing portfolios through a crisis, including the 2008-9 market freeze. During that period, Mutual funds did well in terms of liquidity. It was alternative funds with leverage and people that priced their portfolios monthly that had issues with liquidity, not ‘40 act mutual funds without leverage.

As always, we thank you for your continued support of the Fund. We look forward to writing you again after the end of the Fund’s third fiscal quarter on July 31st.

Sincerely,

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