

# SECURITIES AND EXCHANGE COMMISSION

## FORM N-1A/A

Initial registration statement filed on Form N-1A for open-end management investment companies  
[amend]

Filing Date: **1999-09-10**  
SEC Accession No. **0000930413-99-001179**

([HTML Version](#) on [secdatabase.com](#))

### FILER

#### THIRD AVENUE VARIABLE SERIES TRUST

CIK: **1089107** | IRS No.: **137200050** | Fiscal Year End: **1031**  
Type: **N-1A/A** | Act: **33** | File No.: **333-81141** | Film No.: **99709436**

Mailing Address  
767 THIRD AVE  
NEW YORK NY 10017-2023

Business Address  
767 THIRD AVE  
NEW YORK NY 10017-2023  
2129061177

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION  
ON SEPTEMBER 10, 1999

REGISTRATION NOS.: 333-81141  
811-9395

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20546

FORM N-1A

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 X  
-----

Pre-Effective Amendment No. [ 1 ]  
Post-Effective Amendment No. [ ]

and/or

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940 X  
-----

Amendment No. [ 1 ]

THIRD AVENUE VARIABLE SERIES TRUST  
-----

(Exact name of Registrant as Specified in Charter)

767 Third Avenue, New York, New York 10017-2023  
-----

(Address of Principal Executive Offices including Zip Code)

(toll-free) (800)443-1021, (212)888-5222  
-----

(Registrant's Telephone Number, including Area Code)

Please send copies of communications to:

|   |  |
|---|--|
| David M. Barse                          | Richard T. Prins, Esq.                   |
| 767 Third Avenue                        | Skadden, Arps, Slate, Meagher & Flom LLP |
| New York, New York 10017-2023           | 919 Third Avenue, New York, NY 10022     |
| (Name and Address of Agent for Service) |  |

Approximate Date of proposed public offering: As soon as practicable after the effective date of this Registration Statement.

Pursuant to Rule 24f-2 under the Investment Company Act of 1940, Registrant has elected to register an indefinite number of shares of beneficial interest.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

-----  
THIRD AVENUE VARIABLE SERIES TRUST

THIRD AVENUE VALUE PORTFOLIO

PROSPECTUS  
=====

SEPTEMBER 13, 1999

As with all mutual funds, the Securities and Exchange Commission has not approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

[GRAPHIC OMITTED]

-----  
TABLE OF CONTENTS  
=====

|   |   |
|---|---|
| ABOUT THE PORTFOLIO                           | 1 |
| Objective and Approach                        |   |
| Main Risks                                    |   |
| Past Performance and Financial Highlights     |   |
| Investment Philosophy                         |   |
| Who May Want to Invest                        |   |
| MANAGEMENT OF THE PORTFOLIO                   | 3 |
| HOW TO PURCHASE AND REDEEM SHARES             | 4 |
| DIVIDENDS, CAPITAL GAIN DISTRIBUTIONS & TAXES | 5 |

ABOUT THE PORTFOLIO  
=====

OBJECTIVE AND APPROACH

The Portfolio seeks long-term capital appreciation as its investment objective. The Portfolio seeks to achieve its objective mainly by acquiring common stocks of well-financed companies (meaning companies without significant debt in comparison to their cash resources) at a substantial discount to what the Adviser believes is their true value. The Portfolio also seeks to acquire senior securities, such as preferred stocks and debt instruments, that it believes are undervalued. Acquisitions of these senior securities will generally be limited to those providing (1) protection against the issuer taking certain actions which could reduce the value of the security and (2) above-average current yields, yields to events (e.g., acquisitions and recapitalizations), or yields to maturity. The Portfolio invests in companies regardless of market capitalization, although it frequently finds value in companies with a smaller capitalization. It also invests in both domestic and foreign securities. The mix of the Portfolio's investments at any time will depend on the industries and types of securities the Adviser believes hold the most value.

MAIN RISKS

Prices of securities (and stocks in particular) have historically fluctuated. The value of the Portfolio will similarly fluctuate and you could lose money. The Portfolio frequently finds value in industries that are temporarily depressed. The prices of securities in these industries may tend to go down more than those of companies in other industries. The Portfolio also invests in companies with smaller capitalizations, whose securities tend to be more volatile than those of larger companies. In addition to general market risks, sometimes the value of a security owned by the Portfolio will decline if the market believes that the value of the security is less than the Adviser believes such security is worth. This may be particularly true of the Portfolio because the Portfolio follows a buy and hold strategy and does not sell investments in response to price changes in the markets. Sometimes the Adviser's analysis of a company in which the Portfolio invests may be wrong or the company may fail to realize its full value and the Portfolio could lose money on its investment in the company. Foreign securities are subject to risks such as currency fluctuations and controls, adverse political developments and potentially greater illiquidity. Since the Portfolio is not limited to investing in stocks, the Portfolio may own significant non-equity instruments in a rising stock market, thereby producing smaller gains than a Portfolio invested solely in stocks. The Portfolio is non-diversified. This generally means that the Portfolio will have fewer investments than diversified mutual funds of comparable size. The Portfolio does not have, however, a strategy requiring it to limit its investments to any specified number of issuers. Non-diversified funds can be more volatile than diversified funds.

Past performance information and financial highlights are not provided for the Portfolio because it had not begun investment operations as of the date of this Prospectus. You should be aware that Portfolio performance will fluctuate and may or may not perform as well as a comparable broad market index. As with all mutual funds, past performance does not indicate future results.

=====

INVESTMENT PHILOSOPHY

The Portfolio adheres to a strict value discipline in selecting securities. This means seeking securities whose prices are low in relation to what the Portfolio's Adviser believes is the true value of the securities. The Portfolio's Adviser believes this both lowers risk and increases appreciation potential. The Portfolio identifies investment opportunities through intensive research of individual companies and ignores general stock market conditions and other macro factors. For these reasons, the Portfolio may seek investments in the securities of companies in industries that are temporarily depressed. The Portfolio follows a strategy of "buy and hold." The Portfolio will generally sell an investment only when there has been a fundamental change in the business or capital structure of the company which significantly affects the investment's inherent value.

The particular types of securities in which the Portfolio will invest and the percentage of the Portfolio's assets invested in each type of security will vary depending on where the Adviser sees the most value at the time of investment. The Adviser anticipates, however, that a substantial portion of the Portfolio's assets will be invested in common stocks. In selecting common stocks, the Adviser generally seeks to invest in companies that exhibit the following characteristics:

- 1) A strong financial position, as measured not only by balance sheet data but also by off-balance sheet assets, liabilities and contingencies (as disclosed in footnotes to financial statements and as determined through research of public information), where debt service (that is, the current annual required payment of interest and principal to creditors) consumes a small part of such companies' cash flow.
- 2) Responsible management and control groups, as gauged by managerial competence as operators and investors as well as by an apparent absence of intent to profit at the expense of stockholders.
- 3) Availability of comprehensive and meaningful financial and related information. A key disclosure is audited financial statements and information which the Adviser believes are reliable benchmarks to aid in understanding the business, its values and its dynamics.
- 4) Availability of the security at a market price which the Adviser believes is at a substantial discount to the Adviser's estimate of what the issuer is worth as a private company or as a takeover or merger and acquisition candidate.

As noted above, the Portfolio may from time to time invest its assets in securities other than common stock, including preferred stocks and various types of debt securities, when the Adviser believes that there is a greater potential to realize value by investing in other types of securities. The Portfolio may invest a small portion or a substantial portion of its assets in those other types of securities from time to time without shareholder approval.

When the Portfolio's Adviser believes that a temporary defensive posture is appropriate, the Portfolio may hold all or a portion of its assets in short-term U.S. Government obligations, cash or cash equivalents. This does not constitute a change in the Portfolio's investment objective, but could prevent it from achieving its objective.

The investment objective and philosophy of the Portfolio are similar to those of the Third Avenue Value Fund, a publicly offered "retail" fund managed by the Adviser. Although the Adviser anticipates that the Portfolio and the corresponding retail fund will hold similar investments, differences in asset size and cash flow needs resulting from purchases and redemptions of Portfolio shares may result in different security selections, differences in the relative weightings of investments or differences in the prices paid for particular investments and, accordingly, are expected to cause differences in performance results. Expenses of the Portfolio and the corresponding retail fund also are expected to differ.

WHO MAY WANT TO INVEST

The Portfolios may be appropriate for investors seeking long-term capital appreciation.

MANAGEMENT OF THE PORTFOLIO

THE INVESTMENT ADVISER

EQSF Advisers, Inc. (the "Adviser"), 767 Third Avenue, New York, NY 10017-2023, is the investment adviser for the Portfolio. The Adviser manages the Portfolio's investments, provides various administrative services and supervises the Portfolio's daily business affairs, subject to the authority of the Board of Trustees of Third Avenue Variable Series Trust (the "Trust"). The Adviser manages five other open-end mutual funds with assets in excess of \$1.5 billion. The Adviser has been an investment adviser for mutual funds since its organization in 1986 and is controlled by Martin J. Whitman.

MARTIN J. WHITMAN

Mr. Whitman, the Chairman and Chief Executive Officer of the Trust and its Adviser, is the portfolio manager of the Portfolio. During the past five years, he has also: served in various executive capacities with M.J. Whitman, Inc., the Portfolio's distributor and regular broker-dealer, and several affiliated companies engaged in various investment and financial businesses; served as a Distinguished Management Fellow at the Yale School of Management; and been a director of various public and private companies, currently including Danielson Holding Corporation, an insurance holding company, Nabors Industries, Inc., an international oil drilling contractor, and Tejon Ranch Company, an agricultural and land management company.

ADVISORY FEES

Under an investment advisory agreement between the Portfolio and the Adviser, the Portfolio has agreed to pay the Adviser a fee at an annual rate of .90% of the Portfolio's average daily net assets.

YEAR 2000

The Portfolio's securities trades, pricing and accounting services and other operations could be adversely affected if the computer systems of the Adviser or the Portfolio's distributor, accounting agent, custodian or transfer agent were unable to recognize dates after 1999. The Adviser and other service providers have told the Portfolio that they are taking action to prevent, and do not expect the Portfolio to suffer from, significant Year 2000 problems. In addition, the companies in which the Portfolio invests may have Year 2000 problems. The value of their securities could go down if they do not fix these problems in time or if fixing them is very expensive. With respect to the Portfolio's investment in foreign securities, there can be no assurances that the Year 2000 issue will not have an adverse effect on global markets or economies generally.

HOW TO PURCHASE AND REDEEM SHARES

GENERAL

The Portfolio is offering its shares only to separate accounts (the "Accounts") of insurance companies to fund the benefits of variable annuity or variable life insurance policies (the "Contracts"). The Accounts may invest in shares of the Portfolio in accordance with allocation instructions received from the owners of the Contracts. Such allocation rights and information on how to purchase or surrender a Contract, as well as sales charges and other expenses imposed by the Contracts or their owners, are further described in the separate prospectuses

issued by the participating insurance companies and accompanying this Prospectus. The Portfolio reserves the right to reject any order for the purchase of shares.

#### PRICE OF SHARES

All investments in the Portfolio are credited to an account immediately upon acceptance of the investment by the Portfolio's transfer agent. Net asset value per share is calculated each day the Portfolio is open for business as of the close of regular trading on the New York Stock Exchange, normally 4:00 p.m., Eastern time. Net asset value of the Portfolio is determined by dividing the value of all portfolio securities, cash, and other assets, including accrued interest and dividends, owned by the Portfolio, less all liabilities, including accrued expenses of the Portfolio, by the total number of outstanding shares of the Portfolio. Orders will be priced at the next net asset value calculated following receipt of the order in proper form by the transfer agent. The Portfolio's investments are generally valued at market value. Certain short-term securities are valued based on amortized cost. Illiquid securities and other securities and assets for which market quotations are not readily available are valued at "fair value", as determined in good faith by or under the direction of the Board of Trustees of the Portfolio. Foreign securities held by the Portfolio generally trade on foreign markets which may be open on days when the New York Stock Exchange is closed. This means that the Portfolio's net asset value can change on a day that you cannot purchase or redeem your shares.

#### BUSINESS HOURS

The Portfolio is open for business each day the New York Stock Exchange is open. The New York Stock Exchange and the Portfolio will be closed on the following holidays: New Year's Day, Martin Luther King, Jr. Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day.

#### REDEMPTION OF SHARES

Shares of the Portfolio may be redeemed on any day during which the New York Stock Exchange is open. Portfolio shares will be redeemed at the net asset value next calculated after an order is received in proper form by the Portfolio's transfer agent. Redemption requests that contain a restriction as to the time, date or share price at which the redemption is to be effective will not be honored. The Portfolio will usually make payment for redemptions of Portfolio shares within one business day, but not later than seven calendar days after receipt of a redemption request.

#### CERTAIN EXPENSES

Contract owners will bear various distribution-related and insurance-related costs at the insurance company level and should refer to the accompanying Account prospectus for a summary of such fees and expenses.

#### DIVIDENDS, CAPITAL GAIN DISTRIBUTIONS & TAXES

The Portfolio expects to pay dividends from its net investment income and to distribute any realized net capital gains to the Accounts. All dividends and capital gains distributions of the Portfolio are automatically reinvested by the Accounts in additional shares of such Portfolio.

Dividends from stocks and interest earned from other investments are the main source of income for the Portfolio. Substantially all of this income, less expenses, is distributed to Accounts on an annual basis. When the Portfolio sells securities, it may realize capital gains or losses, depending upon whether the prices of the securities sold are higher or lower than the prices the Portfolio paid to purchase them. Net capital gains represent the excess of net long-term capital gains over net short-term capital losses and any carried forward from prior years. The Portfolio will distribute any net capital gains to Accounts no less frequently than annually.

#### TAX STATUS OF THE PORTFOLIO

The Portfolio will elect to be taxed as a "regulated investment company" under the Internal Revenue Code of 1986, as amended (the "Code"). So long as the Portfolio qualifies as a "regulated investment company," the Portfolio will not be subject to federal income taxes to the extent it distributes its net investment income and net capital gains. If for any taxable year the Portfolio does not qualify for the special tax treatment afforded regulated investment

companies, all of its taxable income, including any net capital gains, would be subject to tax at regular corporate rates (without any deduction for distributions to shareholders).

#### TAX TREATMENT TO INSURANCE COMPANY AS SHAREHOLDER

The investments of an Account are subject to the diversification requirements of Section 817(h) of the Code (the "Requirements"), which must be met at the end of each quarter of the year (or within 30 days thereafter). An Account may generally satisfy the Requirements in either of two ways. First, an Account will satisfy the Requirements if it invests no more than 55% of its total assets in securities of any one issuer, no more than 70% in the securities of any two issuers, no more than 80% in the securities of any three issuers, and no more than 90% in the securities of any four issuers. For this purpose, the U.S. Treasury and each U.S. Government agency and instrumentality is considered to be a separate issuer. Second, an Account will satisfy the Requirements if (i) it meets the diversification requirements imposed upon regulated investment companies and (ii) no more than 55% of the value of the total assets of the Account are attributable to cash, cash items (including receivables), government securities, and securities of regulated investment companies. In determining whether an Account meets the Requirements, a "look-through" rule permits an Account to treat assets of a regulated investment company as its own assets if all of the beneficial interests in the regulated investment company are held by one or more Accounts. Because the Portfolio is offering its shares only to Accounts, an Account should be able to apply this "look-through" rule to the Portfolio in determining if such Account meets the Requirements. The Portfolio intends to manage its investments so that the Portfolio itself will meet the Requirements. In the event that an Account is not properly diversified under Code Section 817(h), then the policies funded by shares of the Portfolio will not be treated as life insurance for federal income tax purposes and the owners of the policies will be subject to taxation on their respective shares of the dividends and distributions paid by the Portfolio.

Dividends paid by the Portfolio from its ordinary income and distributions of the Portfolio's net short-term capital gains are includable in the insurance company's gross income. The tax treatment of such dividends and distributions depends upon the insurance company's tax status. To the extent that income of the Portfolio represents dividends on equity securities rather than interest income, its distributions are eligible for the dividends received deduction applicable in the case of a life insurance company as provided in the Code. The Portfolio will send to the Accounts

=====  
a written notice required by the Code designating the amount and character of any distributions made during such year.

Under the Code, any distributions designated as being made from the Portfolio's net capital gains are taxable to the insurance company as long-term capital gains. Such distributions of net capital gains will be designated as capital gain dividends in a written notice to the Accounts which accompanies the distribution payments. Capital gain dividends are not eligible for the dividends received deduction. Ordinary income dividends and capital gain dividends to the insurance company may also be subject to state and local taxes.

#### CERTAIN INVESTMENT PRACTICES

Certain investment practices of the Portfolio may be subject to special provisions of the Code that, among other things, may defer the use of certain losses of the Portfolio and affect the holding period of the securities held by the Portfolio and the character of the gains or losses realized by the Portfolio. These provisions may also require the Portfolio to recognize income or gain without receiving cash with which to make distributions in the amounts necessary to maintain the Portfolio's qualification as a regulated investment company and avoid income and excise taxes. The Portfolio will monitor its transactions and may make certain tax elections in order to mitigate the effect of these rules and prevent disqualification of the Portfolio as a regulated investment company.

BOARD OF TRUSTEES  
Phyllis W. Beck  
Lucinda Franks  
Gerald Hellerman  
Marvin Moser  
Donald Rappaport  
Myron M. Sheinfeld  
Martin Shubik  
Charles C. Walden  
Barbara Whitman  
Martin J. Whitman

OFFICERS  
Martin J. Whitman  
Chairman, Chief Executive Officer  
David M. Barse  
President, Chief Operating Officer  
Michael Carney  
Chief Financial Officer, Treasurer  
Kerri Weltz, Assistant Treasurer  
Ian M. Kirschner, General Counsel and Secretary

INVESTMENT ADVISER  
EQSF Advisers, Inc.  
767 Third Avenue  
New York, NY 10017-2023

DISTRIBUTOR  
M.J. Whitman, Inc.  
767 Third Avenue  
New York, NY 10017-2023

TRANSFER AGENT  
First Data Investor Services Group, Inc.  
3200 Horizon Drive  
P.O. Box 61503  
King of Prussia, PA 19406-0903  
(610) 239-4600  
(800) 443-1021 (toll-free)

CUSTODIAN  
Custodial Trust Company  
101 Carnegie Center  
Princeton, NJ 08540-6231

[GRAPHIC OMITTED]

THIRD AVENUE FUNDS  
767 THIRD AVENUE  
NEW YORK, NY 10017-2023  
PHONE (212) 888-5222  
TOLL FREE (800) 443-1021  
[www.thirdavenuefunds.com](http://www.thirdavenuefunds.com)

More information about the Portfolio will be available in the Portfolio's reports to shareholders and is available in the Statement of Additional Information (SAI). The Portfolio's Annual Report will contain a discussion of the market conditions and investment strategies that significantly affect the Portfolio's performance during its fiscal year. The SAI is on file with the SEC and is incorporated in this Prospectus by reference (is legally considered part of this Prospectus).

You can obtain the SAI and the Portfolio's reports to shareholders without charge and otherwise make inquiries to the Portfolio by writing or calling the Portfolio at 767 Third Avenue, New York, NY 10017-2023, (800) 443-1021 or (212) 888-5222.

Information about the Portfolio, including the SAI, can be reviewed and copied at the SEC's Public Reference Room in Washington D.C. (phone 1-800-SEC-0330 for information). Copies of this information may be obtained, upon payment of a duplicating fee, by writing the SEC's Public Reference Section, Washington, D.C. 20549-6009. Reports and other information about the Portfolio are available on the SEC's Internet Web site (<http://www.sec.gov>).

[GRAPHIC OMITTED]

STATEMENT OF ADDITIONAL INFORMATION

DATED SEPTEMBER 13, 1999

THIRD AVENUE VARIABLE SERIES TRUST

THIRD AVENUE VALUE PORTFOLIO

This Statement of Additional Information (SAI) is not a Prospectus and should be read together with the Portfolio's Prospectus dated September 13, 1999. This SAI contains information in addition to that set forth in the Prospectus into which this document is incorporated by reference. A copy of the Prospectus and the Portfolio's reports to shareholders may be obtained without charge by writing to the Portfolio at 767 Third Avenue, New York, NY 10017-2023, or by calling the Portfolio at (800) 443-1021 (toll free) or (212) 888-5222.

TABLE OF CONTENTS

|   |    |
|---|----|
| GENERAL INFORMATION                             | 3  |
| INVESTMENT STRATEGIES AND RISKS                 | 3  |
| INVESTMENT RESTRICTIONS                         | 10 |
| MANAGEMENT OF THE TRUST                         | 11 |
| COMPENSATION TABLE                              | 16 |
| PRINCIPAL STOCKHOLDERS                          | 16 |
| INVESTMENT ADVISER                              | 16 |
| INVESTMENT ADVISORY AGREEMENT                   | 17 |
| DISTRIBUTOR                                     | 17 |
| ADMINISTRATORS                                  | 18 |
| CUSTODIAN                                       | 18 |
| TRANSFER AGENT                                  | 18 |
| INDEPENDENT ACCOUNTANTS                         | 18 |
| PORTFOLIO TRADING PRACTICES                     | 18 |
| SHARE INFORMATION                               | 20 |
| PURCHASE ORDERS                                 | 20 |
| REDEMPTION OF SHARES                            | 20 |
| DIVIDENDS, CAPITAL GAIN DISTRIBUTIONS AND TAXES | 22 |
| PERFORMANCE INFORMATION                         | 23 |
| FINANCIAL STATEMENTS                            | 24 |
| APPENDIX  | 25 |

-2-

GENERAL INFORMATION

This Statement of Additional Information is in addition to and serves to expand and supplement the current Prospectus of Third Avenue Variable Series Trust (the "Trust"). The Trust is an open-end, non-diversified management investment company which currently consists of one investment series: THIRD AVENUE VALUE PORTFOLIO (the "Portfolio"). The Trust was organized as a business trust under the laws of the state of Delaware pursuant to an Agreement and Declaration of Trust dated as of June 16, 1999.

The shares of the Portfolio may be purchased only by the separate accounts of insurance companies for the purpose of funding variable life insurance policies and variable annuity contracts.

INVESTMENT STRATEGIES AND RISKS

The Prospectus discusses the investment objective of the Portfolio and the principal strategies to be employed to achieve that objective. This section contains supplemental information concerning certain types of securities and other instruments in which the Portfolio may invest, additional strategies that the Portfolio may utilize and certain risks associated with such investments and strategies.

The Portfolio expects to invest in a broad range of securities (subject to the Portfolio's fundamental investment objective). The particular types of securities and the percentage of the Portfolio's assets invested in each type, will vary depending on where the Adviser (as hereinafter defined) sees the most value at the time of investment. The following is a description of the different types of securities that the Adviser may invest in and certain of the risks relating to those securities.

#### INVESTMENT IN EQUITY SECURITIES

In selecting common stocks, the Adviser generally seeks issuers that exhibit the following characteristics:

- (1) A strong financial position, as measured not only by balance sheet data but also by off-balance sheet assets, liabilities and contingencies (as disclosed in footnotes to financial statements and as determined through research of public information), where debt service<sup>1</sup> consumes a small part of such companies' cash flow.
- (2) Responsible management and control groups, as gauged by managerial competence as operators and investors as well as by an apparent absence of intent to profit at the expense of stockholders.
- (3) Availability of comprehensive and meaningful financial and related information. A key disclosure is audited financial statements and information which the Adviser believes are reliable benchmarks to aid in understanding the business, its values and its dynamics.
- (4) Availability of the security at a market price which the Adviser believes is at a substantial discount to the Adviser's estimate of what the issuer is worth as a private company or as a takeover or merger and acquisition candidate.

1 "Debt Service" means the current annual required payment of interest and principal to creditors.

Investing in common stock has certain risks, including the risk that the financial condition of the issuers of the Portfolio's securities may become impaired or that the general condition of the stock market may worsen (both of which may contribute directly to a decrease in the value of the securities and thus in the value of the Portfolio's shares). Common stocks are especially susceptible to general stock market movements and to increases and decreases in value as market confidence in and perceptions of the issuers change. These perceptions are based on unpredictable

-3-

factors including expectations regarding government, economic, monetary and fiscal policies, inflation and interest rates, economic expansion or contraction, and global or regional political, economic or banking crises. The value of the common stocks owned by the Portfolio thus may be expected to fluctuate.

In selecting preferred stocks, the Adviser will use its selection criteria for either common stocks or debt securities, depending on the Adviser's determination as to how the particular issue should be viewed, based, among other things, upon the terms of the preferred stock and where it fits in the issuer's capital structure. Preferred stocks are usually entitled to rights on liquidation which are senior to those of common stocks. For these reasons, preferred stocks generally entail less risk than common stocks of the same issuer. Such securities may pay cumulative dividends. Because the dividend rate is pre-established, and as they are senior to common stocks, such securities tend to have less possibility of capital appreciation.

Although the Adviser does not pay attention to market factors in making investment decisions, the Portfolio is, of course, subject to the vagaries of the markets. In particular, small-cap stocks have less market liquidity and tend to have more price volatility than larger capitalization stocks.

## INVESTMENT IN DEBT SECURITIES

The Portfolio intends its investment in debt securities to be, for the most part, in securities which the Adviser believes will provide above-average current yields, yields to events, or yields to maturity. In selecting debt instruments for the Portfolio, the Adviser requires the following characteristics:

- 1) Strong covenant protection, and
- 2) Yield to maturity at least 500 basis points above that of a comparable credit.

In acquiring debt securities for the Portfolio, the Adviser generally will look for covenants which protect holders of the debt issue from possible adverse future events such as, for example, the addition of new debt senior to the issue under consideration. Also, the Adviser will seek to analyze the potential impacts of possible extraordinary events such as corporate restructurings, refinancings, or acquisitions. The Adviser will also use its best judgment as to the most favorable range of maturities. In general, the Portfolio will acquire debt issues which have a senior position in an issuer's capitalization and will avoid "mezzanine" issues such as non-convertible subordinated debentures.

The market value of debt securities is affected by changes in prevailing interest rates and the perceived credit quality of the issuer. When prevailing interest rates fall or perceived credit quality is increased, the market values of debt securities generally rise. Conversely, when interest rates rise or perceived credit quality is lowered, the market values of debt securities generally decline. The magnitude of these fluctuations will be greater when the average maturity of the portfolio securities is longer.

## CONVERTIBLE SECURITIES

The Portfolio may invest in convertible securities, which are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a prescribed amount of equity securities (generally common stock) of the same or a different issuer within a particular period of time at a specified price or formula. Convertible securities have general characteristics similar to both fixed income and equity securities. Yields for convertible securities tend to be lower than for non-convertible debt securities but higher than for common stocks. Although to a lesser extent than with fixed income securities generally, the market value of convertible securities tends to decline as interest rates increase and, conversely, tends to increase as interest rates decline. In addition, because of the conversion feature, the market value of convertible securities tends to vary with fluctuations in the market value of the underlying security and therefore also will react to variations in the general market for equity securities and the operations of the issuer. While no securities investments are without risk, investments in convertible securities generally entail less risk than investments in common stock of the same issuer. Convertible securities generally are subordinated to other similar but non-convertible securities of the same issuer, although

-4-

convertible bonds, as corporate debt obligations, enjoy seniority in right of payment to all equity securities, and convertible preferred stock is senior to common stock of the same issuer. However, because of the subordination feature, convertible bonds and convertible preferred stock typically have lower ratings than similar convertible securities.

## MORTGAGE-BACKED SECURITIES

The Portfolio may invest in mortgage-backed securities and derivative mortgage-backed securities, but will not invest in "principal only" and "interest only" components. Mortgage-backed securities are securities that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans on real property. The Portfolio intends to invest in these securities only when it believes, after analysis, that there is unlikely to ever be permanent impairment of capital as measured by whether there will be a money default by either the issuer or the guarantor of these securities. These securities do, nonetheless, entail considerable market risk (meaning fluctuations in quoted prices for the instruments), interest rate risk, prepayment risk and inflation risk.

The Portfolio will not invest in non-investment grade subordinated classes of

residential mortgage-backed securities and does not intend to invest in commercial mortgage-backed securities. Prepayments of principal generally may be made at any time without penalty on residential mortgages and these prepayments are passed through to holders of one or more of the classes of mortgage-backed securities. Prepayment rates may change rapidly and greatly, thereby also affecting yield to maturity, reinvestment risk and market value of the mortgage-backed securities. As a result, the high credit quality of many of these securities may provide little or no protection against loss in market value, and there have been periods during which many mortgage-backed securities have experienced substantial losses in market value. The Adviser believes that, under certain circumstances, many of these securities may trade at prices below their inherent value on a risk-adjusted basis and believes that selective purchases by the Portfolio may provide high yield and total return in relation to risk levels.

#### ASSET-BACKED SECURITIES

The Portfolio may also invest in asset-backed securities that, through the use of trusts and special purpose vehicles, are securitized with various types of assets, such as automobile receivables, credit card receivables and home-equity loans in pass-through structures similar to the mortgage-related securities described above. In general, the collateral supporting asset-backed securities is of shorter maturity than the collateral supporting mortgage loans and is less likely to experience substantial prepayments. However, asset-backed securities are not backed by any governmental agency.

#### FLOATING RATE, INVERSE FLOATING RATE AND INDEX OBLIGATIONS

The Portfolio may invest in debt securities with interest payments or maturity values that are not fixed, but float in conjunction with (or inversely to) an underlying index or price. These securities may be backed by U.S. Government or corporate issuers, or by collateral such as mortgages. The indices and prices upon which such securities can be based include interest rates, currency rates and commodities prices. However, the Portfolio will not invest in any instrument whose value is computed based on a multiple of the change in price or value of an asset or an index of or relating to assets in which the Portfolio cannot or will not invest.

Floating rate securities pay interest according to a coupon which is reset periodically. The reset mechanism may be formula based, or reflect the passing through of floating interest payments on an underlying collateral pool. Inverse floating rate securities are similar to floating rate securities except that their coupon payments vary inversely with an underlying index by use of a formula. Inverse floating rate securities tend to exhibit greater price volatility than other floating rate securities.

The Portfolio does not intend to invest more than 5% of its total assets in inverse floating rate securities. Floating rate obligations generally exhibit a low price volatility for a given stated maturity or average life because their coupons adjust with changes in interest rates. Interest rate risk and price volatility on inverse floating rate obligations can be high, especially if leverage is

-5-

used in the formula. Index securities pay a fixed rate of interest, but have a maturity value that varies by formula, so that when the obligation matures a gain or loss may be realized. The risk of index obligations depends on the volatility of the underlying index, the coupon payment and the maturity of the obligation.

#### INVESTMENT IN HIGH YIELD DEBT SECURITIES

The Portfolio may invest in high yield debt securities, including those rated below Baa by Moody's Investors Service, Inc. ("Moody's") and below BBB by Standard & Poor's Ratings Group ("Standard & Poor's") and unrated debt securities, commonly referred to as "junk bonds". See also "Investment in Debt Securities" and "Restricted and Illiquid Securities." Such securities are predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligation, and may in fact be in default. The Portfolio does not intend to invest more than 35% of its total assets in such securities. The ratings of Moody's and Standard & Poor's represent their opinions as to the credit quality of the securities which they undertake to rate (see Appendix A for a description of those ratings). It should be emphasized, however, that ratings are relative and subjective and, although ratings may be useful in evaluating the safety of interest and principal payments, they do not evaluate the market price risk of these securities. In

seeking to achieve its investment objective, the Portfolio depends on the Adviser's credit analysis to identify investment opportunities. For the Portfolio, credit analysis is not a process of merely measuring the probability of whether a money default will occur, but also measuring how the creditor would fare in a reorganization or liquidation in the event of a money default.

Before investing in any high yield debt instruments, the Adviser will evaluate the issuer's ability to pay interest and principal, as well as the seniority position of such debt in the issuer's capital structure vis-a-vis any other outstanding debt or potential debts. There appears to be a direct cause and effect relationship between the weak financial conditions of issuers of high yield bonds and the market valuation and prices of their credit instruments, as well as a direct relationship between the weak financial conditions of such issuers and the prospects that principal or interest may not be paid.

The market price and yield of bonds rated below Baa by Moody's and below BBB by Standard & Poor's are more volatile than those of higher rated bonds due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity and the risk of an issuer's inability to meet principal and interest payments. In addition, the secondary market for these bonds is generally less liquid than that for higher rated bonds.

Lower rated or unrated debt obligations also present reinvestment risks based on payment expectations. If an issuer calls the obligation for redemption, the Portfolio may have to replace the security with a lower yielding security, resulting in a decreased return for investors.

The market values of these higher yielding debt securities tend to be more sensitive to economic conditions and individual corporate developments than those of higher rated securities. Companies that issue such bonds often are highly leveraged and may not have available to them more traditional methods of financing. Under adverse economic conditions, there is a risk that highly leveraged issuers may be unable to service their debt obligations or to repay their obligations upon maturity. Under deteriorating economic conditions or rising interest rates, the capacity of issuers of lower-rated securities to pay interest and repay principal is more likely to weaken significantly than that of issuers of higher-rated securities. Investors should carefully consider the relative risks of investing in high yield securities and understand that such securities are generally not meant for short-term investing.

The Portfolio may also purchase or retain debt obligations of issuers not currently paying interest or in default (i.e., with a rating from Moody's of C or lower or Standard & Poor's of C1 or lower). In addition, the Portfolio may purchase securities of companies that have filed for protection under Chapter 11 of the United States Bankruptcy Code. Defaulted securities will be purchased or retained if, in the opinion of the Adviser, they may present an opportunity for

-6-

subsequent price recovery, the issuer may resume payments, or other advantageous developments appear likely.

#### ZERO-COUPON AND PAY-IN-KIND SECURITIES

The Portfolio may invest in zero coupon and pay-in-kind ("PIK") securities. Zero coupon securities are debt securities that pay no cash income but are sold at substantial discounts from their value at maturity. PIK securities pay all or a portion of their interest in the form of additional debt or equity securities. Because such securities do not pay current cash income, the price of these securities can be volatile when interest rates fluctuate. While these securities do not pay current cash income, federal income tax law requires the holders of zero coupon and PIK securities to include in income each year the portion of the original issue discount (or deemed discount) and other non-cash income on such securities accrued during that year. In order to continue to qualify for treatment as a "regulated investment company" under the Internal Revenue Code of 1986, as amended (the "Code") and avoid a certain excise tax, the Portfolio may be required to distribute a portion of such discount and income and may be required to dispose of other portfolio securities, which may occur in periods of adverse market prices, in order to generate cash to meet these distribution requirements.

#### LOANS AND OTHER DIRECT DEBT INSTRUMENTS

The Portfolio may invest in loans and other direct debt instruments owed by a borrower to another party and may also from time to time make loans. These instruments represent amounts owed to lenders or lending syndicates (loans and loan participations) or to other parties. Direct debt instruments may involve a risk of loss in case of default or insolvency of the borrower and may offer less

legal protection to the Portfolio in the event of fraud or misrepresentation. In addition, loan participations involve a risk of insolvency of the lending bank or other financial intermediary. The markets in loans are not regulated by federal securities laws or the Securities and Exchange Commission (the "SEC").

#### TRADE CLAIMS

The Portfolio may invest in trade claims. Trade claims are interests in amounts owed to suppliers of goods or services and are purchased from creditors of companies in financial difficulty. For purchasers such as the Portfolio, trade claims offer the potential for profits since they are often purchased at a significant discount from face value and, consequently, may generate capital appreciation in the event that the market value of the claim increases as the debtor's financial position improves or the claim is paid.

An investment in trade claims is speculative and carries a high degree of risk. Trade claims are illiquid instruments which generally do not pay interest and there can be no guarantee that the debtor will ever be able to satisfy the obligation on the trade claim. The markets in trade claims are not regulated by federal securities laws or the SEC. Because trade claims are unsecured, holders of trade claims may have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding.

#### FOREIGN SECURITIES

The Portfolio may invest in foreign securities. The Portfolio's foreign securities investments will have characteristics similar to those of domestic securities selected for the Portfolio. The Portfolio intends to limit its investments in foreign securities to companies issuing U.S. dollar-denominated American Depository Receipts or which, in the judgment of the Adviser, otherwise provide financial information which provides the Adviser with substantively similar financial information as SEC disclosure requirements. By limiting its investments in this manner, the Portfolio seeks to avoid investing in securities where there is no compliance with SEC requirements to provide public financial information, or such information is unreliable as a basis for analysis.

Foreign securities markets generally are not as developed or efficient as those in the United States. Securities of some foreign issuers are less liquid and more volatile than securities of comparable U.S. issuers. The Portfolio will be subject to additional risks which include: possible adverse political and economic developments, seizure or nationalization of foreign deposits and adoption

-7-

of governmental restrictions that may adversely affect the payment of principal and interest on the foreign securities or currency blockage that would restrict such payments from being brought back to the United States. Because foreign securities often are purchased with and payable in foreign currencies, the value of these assets as measured in U.S. dollars may be affected favorably or unfavorably by changes in currency rates and exchange control regulations.

#### FOREIGN CURRENCY TRANSACTIONS

The Portfolio may, from time to time, engage in foreign currency transactions in order to hedge the value of its portfolio holdings denominated in foreign currencies against fluctuations in foreign currency prices versus the U.S. dollar. These transactions include forward currency contracts, exchange listed and OTC options on currencies, currency swaps and other swaps incorporating currency hedges.

The notional amount of a currency hedged by the Portfolio will be closely related to the aggregate market value (at the time of making such hedge) of the securities held and reasonably expected to be held in its portfolio denominated or quoted in or currently convertible into that particular currency or a closely related currency. If the Portfolio enters into a hedging transaction in which the Portfolio is obligated to make further payments, its custodian will segregate cash or readily marketable securities having a value at all times at least equal to the Portfolio's total commitments.

The cost to the Portfolio of engaging in currency hedging transactions varies with factors such as (depending upon the nature of the hedging transaction) the currency involved, the length of the contract period, interest rates in foreign countries for prime credits relative to U.S. interest rates for U.S. Treasury obligations, the market conditions then prevailing and fluctuations in the value of such currency in relation to the U.S. dollar. Transactions in currency hedging contracts usually are conducted on a principal basis, in which case no

fees or commissions are involved. The use of currency hedging contracts does not eliminate fluctuations in the prices in local currency of the securities being hedged. The ability of the Portfolio to realize its objective in entering into currency hedging transactions is dependent on the performance of its counterparties on such contracts, which may in turn depend on the absence of currency exchange interruptions or blockage by the governments involved, and any failure on their part could result in losses to the Portfolio. The requirements for qualification as a regulated investment company under the Code, may cause the Portfolio to restrict the degree to which it engages in currency hedging transactions.

#### RESTRICTED AND ILLIQUID SECURITIES

The Portfolio will not purchase or otherwise acquire any security if, as a result, more than 15% of its net assets (taken at current market value) would be invested in securities that are illiquid. Generally speaking, an illiquid security is any asset or investment which the Portfolio cannot sell in the ordinary course of business within seven days at approximately the value at which the Portfolio has valued the asset or investment, including securities that cannot be sold publicly due to legal or contractual restrictions. The sale of illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale.

Over the past several years, strong institutional markets have developed for various types of restricted securities, including repurchase agreements, commercial paper, and some corporate bonds and notes. Securities freely salable among qualified institutional investors under special rules adopted by the SEC or otherwise determined to be liquid, may be treated as liquid if they satisfy liquidity standards established by the Board of Trustees. The continued liquidity of such securities is not as well assured as that of publicly traded securities, and accordingly the Board of Trustees will monitor their liquidity. The Board will review pertinent factors such as trading activity, reliability of price information and trading patterns of comparable securities in determining whether to treat any such security as liquid for purposes of the foregoing 15% test.

-8-

To the extent the Board treats such securities as liquid, temporary impairments to trading patterns of such securities may adversely affect the Portfolio's liquidity.

#### INVESTMENT IN RELATIVELY NEW ISSUES

The Portfolio intends to invest occasionally in the common stock of selected new issuers. Investments in relatively new issuers, i.e., those having continuous operating histories of less than three years, may carry special risks and may be more speculative because such companies are relatively unseasoned. Such companies may also lack sufficient resources, may be unable to generate internally the funds necessary for growth and may find external financing to be unavailable on favorable terms or even totally unavailable. Those companies will often be involved in the development or marketing of a new product with no established market, which could lead to significant losses. The securities of such issuers may have a limited trading market which may adversely affect their disposition and can result in their being priced lower than might otherwise be the case. If other investors who invest in such issuers trade the same securities when the Portfolio attempts to dispose of its holdings, the Portfolio may receive lower prices than might otherwise be the case.

#### TEMPORARY DEFENSIVE INVESTMENTS

When, in the judgment of the Adviser, a temporary defensive posture is appropriate, the Portfolio may hold all or a portion of its assets in short-term U.S. Government obligations, cash or cash equivalents. The adoption of a temporary defensive posture does not constitute a change in the Portfolio's investment objective.

#### BORROWING

The Portfolio may also make use of bank borrowing as a temporary measure for extraordinary or emergency purposes, such as for liquidity necessitated by shareholder redemptions, and may use securities as collateral for such borrowing. Such temporary borrowing may not exceed 5% of the value of the Portfolio's total assets at the time of borrowing.

#### INVESTMENT IN OTHER INVESTMENT COMPANIES

The Portfolio may invest in securities of other investment companies, to the extent permitted under the Investment Company Act of 1940, as amended (the "1940 Act"), provided that after any purchase the Portfolio does not own more than 3% of such investment company's outstanding stock. The Adviser will charge an advisory fee on the portion of the Portfolio's assets that are invested in securities of other investment companies. Thus, shareholders will be responsible for a "double fee" on such assets, since both investment companies will be charging fees on such assets.

#### SIMULTANEOUS INVESTMENTS

Investment decisions for the Portfolio are made independently from those of the other accounts advised by the Adviser and its affiliates. If, however, such other accounts wish to invest in, or dispose of, the same securities as one of the Portfolios, available investments will be allocated equitably between the Portfolio and other account. This procedure may adversely affect the size of the position obtained for or disposed of by the Portfolio or the price paid or received by the Portfolio.

#### SECURITIES LENDING

The Portfolio may lend its portfolio securities to qualified institutions. By lending its portfolio securities, the Portfolio attempts to increase its income through the receipt of interest on the loan. Any gain or loss in the market price of the securities loaned that may occur during the term of the loan will be for the account of the Portfolio. The Portfolio may lend its portfolio securities so long as the terms and the structure of such loans are not inconsistent with the requirements of the 1940 Act, which currently provide that (a) the borrower pledge and maintain with the Portfolio collateral consisting of cash, a letter of credit issued by a domestic U.S. bank, or securities issued or guaranteed by the U.S. government having a value at all times not less than 100% of the value of the securities loaned, (b) the borrower add to such collateral whenever the price of the securities

-9-

loaned rises (i.e., the value of the loan is "marked to the market" on a daily basis), (c) the loan be made subject to termination by the Portfolio at any time and the loaned securities be subject to recall within the normal and customary settlement time for securities transactions and (d) the Portfolio receive reasonable interest on the loan (which may include the Portfolio's investing any cash collateral in interest bearing short-term investments), any distributions on the loaned securities and any increase in their market value. If the borrower fails to maintain the requisite amount of collateral, the loan automatically terminates and the Portfolio could use the collateral to replace the securities while holding the borrower liable for any excess of replacement cost over the value of the collateral. As with any extension of credit, there are risks of delay in recovery and in some cases even loss of rights in collateral should the borrower of the securities fail financially.

The Portfolio will not lend portfolio securities if, as a result, the aggregate of such loans exceeds 33 1/3% of the value of its total assets (including such loans). Loan arrangements made by the Portfolio will comply with all other applicable regulatory requirements. All relevant facts and circumstances, including the creditworthiness of the qualified institution, will be monitored by the Adviser, and will be considered in making decisions with respect to lending of securities, subject to review by the Portfolio's Board of Trustees.

The Portfolio may pay reasonable negotiated fees in connection with loaned securities, so long as such fees are set forth in a written contract and approved by its Board of Trustees. In addition, the Portfolio shall, through the ability to recall securities prior to any required vote, retain voting rights over the loaned securities.

On behalf of the Portfolio, the Trust has entered into a master lending arrangement with Bear, Stearns Securities Corp. in compliance with the foregoing requirements.

#### SHORT SALES

The Portfolio may, but currently does not intend to, engage in short sales. In a short sale transaction, the Portfolio sells a security it does not own in anticipation of a decline in the market value of the security.

#### COMMODITIES

The Portfolio may, but currently does not intend to, invest in commodities or

INVESTMENT RESTRICTIONS

For the benefit of shareholders, the Portfolio has adopted the following restrictions, which are fundamental policies and, together with the Portfolio's investment objective, cannot be changed without the approval of a majority of such Portfolio's outstanding voting securities. 1

The Portfolio may not:

1. Borrow money or pledge, mortgage or hypothecate any of its assets except that the Portfolio may borrow on a secured or unsecured basis as a temporary measure for extraordinary or emergency purposes. Such temporary borrowing may not exceed 5% of the value of the Portfolio's total assets when the borrowing is made.
2. Act as underwriter of securities issued by other persons, except to the extent that, in connection with the disposition of portfolio securities, it may technically be deemed to be an underwriter under certain securities laws.
3. Invest in interests in oil, gas, or other mineral exploration or development programs, although it may invest in the marketable securities of companies which invest in or sponsor such programs.

-10-

4. Issue any senior security (as defined in the 1940 Act). Borrowings permitted by Item 1 above are not senior securities.
5. Invest 25% or more of the value of its total assets in the securities (other than Government Securities or the securities of other regulated investment companies) of any one issuer, or of two or more issuers which the Portfolio controls and which are determined to be engaged in the same industry or similar trades or businesses or related trades or businesses.
6. Invest 25% or more of the value of its total assets in any one industry.

-----  
1 As used in this Statement of Additional Information as to any matter requiring shareholder approval, the phrase "majority of the outstanding securities" means the vote at a meeting of (i) 67% or more of the shares present or represented, if the holders of more than 50% of the outstanding voting securities are present in person or represented by proxy, or (ii) more than 50% of the outstanding voting securities, whichever is less.

The Portfolio is required to comply with the above fundamental investment restrictions applicable to it only at the time the relevant action is taken. The Portfolio is not required to liquidate an existing position solely because a change in the market value of an investment or a change in the value of the Portfolio's net or total assets causes it not to comply with the restriction at a future date. The Portfolio will not purchase any portfolio securities while any borrowing exceeds 5% of its total assets.

MANAGEMENT OF THE TRUST

The Board of Trustees of the Portfolio oversees the management of the Portfolio. The Trustees are responsible for such matters as reviewing and approving fundamental operating, financial, and corporate governance policies; evaluating the Adviser's performance; determining management fees; and reviewing and approving procedures for providing financial and operational information to the Board.

Trustees and officers of the Portfolio, together with information as to their principal business occupations during at least the last five years, are shown below. Each trustee who is deemed to be an "interested person" of the Portfolio, as defined in the 1940 Act, is indicated by an asterisk.

<TABLE>  
<CAPTION>

| NAME & ADDRESS | AGE | POSITION(S)<br>HELD WITH<br>REGISTRANT | PRINCIPAL OCCUPATION DURING PAST 5 YEARS |
|----------------|-----|--|--|
|----------------|-----|--|--|

| <S>  | <C> | <C>     | <C>   |
|--|-----|---------|---|
| PHYLLIS W. BECK*1<br>GSB Bldg. Suite 800<br>City Line & Belmont Ave.<br>Bala Cynwyd, PA 19004-1611 | 72  | Trustee | An Associate Judge (1981 to Present) of the Superior Court of Pennsylvania; Trustee of Third Avenue Trust (together with its predecessor, "Third Avenue Trust") (November 1992 to Present); Trustee of the Trust since its inception, June, 1999.   |
| -11-   |     |         |   |
| LUCINDA FRANKS<br>64 East 86th Street<br>New York, NY 10028  | 52  | Trustee | Journalist (1969 to Present); Author "Wild Apples" (1990), "Waiting Out a War; The Exile of Private John Picciano (1974); Winner of the 1971 Pulitzer Prize for Journalism; Trustee of Third Avenue Trust (February, 1998 to Present); Trustee of the Trust since its inception, June, 1999.  |
| GERALD HELLERMAN<br>10965 Eight Bells Lane<br>Columbia, MD 21044                                   | 61  | Trustee | Managing Director (8/93 to Present) of Hellerman Associates, a financial and corporate consulting firm; Chief Financial Analyst (1976 to 7/93) of the Antitrust Division of U.S. Department of Justice; Director of Clemente Global Growth Portfolio, Inc. (9/98 to Present); Trustee of Third Avenue Trust (September, 1993 to Present); Trustee of the Trust since its inception, June, 1999.   |
| MARVIN MOSER, M.D.<br>13 Murray Hill Road<br>Scarsdale, NY 10583                                   | 75  | Trustee | Trustee (1992 to Present) of the Trudeau Institute, a medical research institute; Clinical Professor of Medicine (1984 to Present) at Yale University School of Medicine; Senior Medical Consultant (1972 to Present) for the National High Blood Pressure Education Program of the National Heart, Lung and Blood Institute; Chairman (1977) and a member in 1980, 1984, 1988, 1992 and 1996 of the Joint National Committee on Detection, Evaluation and Treatment of High Blood Pressure for the National Heart, Lung and Blood Institute; Director of AMBI Corp. (1997 to Present); Trustee of Third Avenue Trust (November, 1994 to Present); Trustee of the Trust since its inception, June, 1999.  |
| DONALD RAPPAPORT<br>1619 31st Street, N.W.<br>Washington, D.C. 20007                               | 73  | Trustee | Private investor and consultant (1987 to May, 1997 and May, 1999 to Present); Chief Financial and Chief Information Officer for the U.S. Department of Education (May, 1997 to May, 1999); President and Chief Operating Officer (3/90 to 12/90) of Third Avenue Value Fund, Inc. and Equity Strategies Fund, Inc. (1984 to 12/90); Director (1987 to 4/94) of Equity Strategies Fund, Inc.; President (1989 to 12/90) of Whitman Advisors, Ltd., an investment adviser; Registered Securities Representative (1989 to 1991) of M.J. Whitman & Co., Inc. a former broker-dealer; Trustee of Third Avenue Trust (November, 1991 to May, 1997 and June, 1998 to Present); Trustee of the Trust since its inception, June, 1999.                                   |
| MYRON M. SHEINFELD<br>1001 Fannin St., Suite 3700<br>Houston, TX 77002                             | 68  | Trustee | Counsel to (12/96 to present) and Attorney and Shareholder (1968 to 12/96) of Sheinfeld, Maley & Kay P.C., a law firm; Adjunct Professor (1975 to 1991) of the University of Texas Law School; Director (1984 to 1992) of Equity Strategies Fund, Inc.; Director (1988 to Present) of Nabors Industries, Inc., an international oil drilling contractor; Director (11/98 to present) of Anchor Glass Container Corp.; former Consultant (11/90 to 4/95) to Meyer Hendricks Victor Osborn & Maledon, a law firm in Phoenix, Arizona; Co-Editor and Co-Author "Collier on Bankruptcy 15th Edition Revised" and "Collier on Bankruptcy Taxation"; Trustee of Third Avenue Trust (November, 1991 to Present); Trustee of the Trust since its inception, June, 1999. |

|   |    |  |  |
|---|----|--|--|
| MARTIN SHUBIK<br>Yale University Dept. of<br>Economics<br>Box 2125, Yale Station<br>New Haven, CT 06520 | 72 | Trustee  | Seymour H. Knox Professor (1975 to Present) of<br>Mathematical and Institutional Economics,<br>Yale University; Director (1984 to 4/94) Equity<br>Strategies Fund, Inc.; Trustee of Third Avenue Trust<br>(November, 1991 to Present); Trustee of the Trust since<br>its inception, June, 1999.  |
| CHARLES C. WALDEN<br>11 Williamsburg Circle<br>Madison, CT 06443  | 55 | Trustee  | Executive Vice-President--Investments (1973 to Present)<br>(Chief Investment Officer) of Knights of Columbus, a<br>fraternal benefit society selling life insurance and<br>annuities; Chartered Financial Analyst; Trustee of Third<br>Avenue Trust (May, 1996 to Present); Trustee of the Trust<br>since its inception, June, 1999.   |
| BARBARA WHITMAN*1<br>767 Third Avenue<br>New York, NY 10017-2023  | 40 | Trustee  | Registered Securities Representative (11/96 to Present) of<br>M.J. Whitman, Inc., a broker-dealer and the Portfolio's<br>underwriter; Director (4/95 to Present) of EQSF Advisers, Inc.,<br>the Portfolio's investment adviser; Director (8/97 to 6/98)<br>of Riverside Stage Company, a theater; House Manager (1/94<br>to 8/94) of Whiting Auditorium, a theater; Substitute<br>Teacher (1/92 to 6/93) of National-Louis University Movement<br>Center, a university; Trustee of Third Avenue Trust<br>(September, 1997 to Present); Trustee of the Trust since its<br>inception, June, 1999.  |
| MARTIN J. WHITMAN*1<br>767 Third Avenue<br>New York, NY 10017-2023                                      | 74 | Chairman,<br>Chief<br>Executive<br>Officer, and<br>Trustee | Chairman and CEO of the Trust since inception; Chairman, CEO<br>and Trustee (3/90 to Present), President (1/91 to 5/98),<br>of Third Avenue Trust; Chairman and CEO (3/90 to Present),<br>President (1/91 to 2/98), of EQSF Advisers, Inc.; Chairman,<br>CEO (1/1/95 to Present), President (1/1/95 to 6/29/95) and<br>Chief Investment Officer (10/92 to Present) of M.J. Whitman<br>Advisers, Inc., a subsidiary of M.J. Whitman Holding Corp.,<br>(MJWHC), a holding company managing investment subsidiaries<br>and an investment adviser to private and institutional<br>clients; Chairman, CEO (1/1/95 to Present) and President<br>(1/1/95 to 6/29/95) of MJWHC and of M.J. Whitman, Inc., a<br>subsidiary of MJWHC and the successor broker-dealer of M.J.<br>Whitman, L.P. (MJWLP), a Delaware limited partnership which<br>has been dissolved; Distinguished Management Fellow (1972 to<br>Present) and Member of the Advisory Board (10/94 to 6/95) of<br>the Yale School of Management at Yale University; Director<br>and Chairman (8/90 to Present), President (8/90 to 12/90),<br>CEO (8/96 to Present) and Chief Investment Officer (12/90 to<br>8/96) of Danielson Holding Corporation, and a Director of<br>its subsidiaries; Director (3/91 to Present) of Nabors<br>Industries, Inc., an international oil drilling contractor;<br>Director (8/97 to Present) of Tejon Ranch Co.; President and<br>CEO (10/74 to Present) of Martin J. Whitman & Co., Inc.,<br>(formerly M.J. Whitman & Co., Inc.), a private investment<br>company; Trustee of the Trust since its inception, June,<br>1999; Chartered Financial Analyst. |
| -13-  |    |  |  |
| DAVID M. BARSE<br>767 Third Avenue<br>New York, NY 10017-2023   | 37 | President<br>and Chief<br>Operating<br>Officer (COO)       | President of the Trust since inception; President<br>(5/98 to Present), and Executive Vice President<br>(4/95 to 5/98) of Third Avenue Trust; President,<br>Chief Operating Officer and Director (7/96 to<br>Present) of Danielson Holding Corporation; Director (8/96 to<br>Present) of National American Insurance Company of<br>California; President (2/98 to Present), Executive Vice<br>President (4/95 to 2/98), and Director (4/95 to Present) of<br>EQSF Advisers, Inc.; President (6/95 to Present), Director,<br>Chief Operating Officer (1/95 to Present), Secretary (1/95<br>to 1/96) and Executive Vice President (1/95 to 6/95) of<br>MJWHC; President (6/95 to Present), Director and COO (1/95<br>to Present), Secretary (1/95 to 1/96), Executive Vice<br>President (1/95 to 6/95) of M.J. Whitman, Inc.; President<br>(6/95 to Present), Director and COO (1/95 to Present),<br>Executive Vice President (1/95 to 6/95) and Corporate<br>Counsel (10/92 to 12/95) of M.J. Whitman Advisers, Inc.;<br>Director (6/97 to Present) of CGA Group, Ltd.; Director<br>(7/94 to 12/94), Executive Vice President and Secretary<br>(1/92 to 12/94) of Whitman Securities Corp.  |
| MICHAEL CARNEY<br>767 Third Avenue<br>New York, NY 10017-2023   | 45 | Treasurer,<br>Chief<br>Financial                           | Treasurer and CFO of the Trust since inception; Treasurer<br>and CFO of Third Avenue Trust (March, 1990 to Present);<br>Director, (1/1/95 to Present) Executive Vice President,  |

|                  |   |
|------------------|---|
| Officer<br>(CFO) | Chief Financial Officer (6/29/95 to Present) of MJWHC and of M.J. Whitman, Inc.; Treasurer, Director (1/1/95 to Present), Executive Vice President (6/29/95 to Present) and CFO (10/92 to Present) of M.J. Whitman Advisers, Inc.; Treasurer (12/93 to 4/96) of Longstreet Investment Corp.; CFO (3/26/93 to 6/95) of Danielson Trust Company; Limited Partner (1/92 to 12/31/94) of M.J. Whitman, L.P.; CFO of WHR Management Corporation (8/91 to Present), Danielson Holding Corporation (8/90 to Present) and Carl Marks Strategic Investments, L.P., an investment partnership (1/90 to 4/94); CFO (1/90 to 4/94) of Carl Marks & Co., Inc., a broker-dealer; CFO (8/89 to 12/90) of Whitman Advisors, Ltd.; CFO and Treasurer (5/89 to 4/94) of Equity Strategies Fund, Inc.; CFO and Treasurer (5/89 to Present) of EQSF Advisers, Inc.; CFO (5/89 to Present) of Whitman Heffernan Rhein & Co., Inc., Martin J. Whitman & Co., Inc., (formerly M.J. Whitman & Co., Inc.) and WHR Management Company, L.P., a firm managing investment partnerships. |
|------------------|---|

-14-

|   |    |                                     |  |
|---|----|-------------------------------------|--|
| KERRI WELTZ<br>767 Third Avenue<br>New York, NY 10017-2023      | 31 | Assistant<br>Treasurer              | Assistant Treasurer of the Trust since inception; Assistant Treasurer (5/96 to Present), Controller (1/96 to Present), Assistant Controller (1/93 to 12/95) and Staff Accountant (1/92 to 12/92) for Third Avenue Trust; Controller (1/96 to Present), Assistant Controller (1/93 to 12/95), and Staff Accountant (1/92 to 12/92) of EQSF Advisers, Inc.; Controller (8/96 to Present), of Danielson Holding Corp.; Controller (5/96 to Present) and Assistant Controller (1/95 to 5/96) of Whitman Heffernan & Rhein Workout Portfolio II, L.P. and Whitman Heffernan & Rhein Workout Portfolio II-A, L.P.; Controller (5/96 to Present) of WHR Management Corp.; Controller (5/96 to present), Assistant Controller (1/93 to 5/96) and Staff Accountant (5/91 to 12/92), of Whitman Heffernan Rhein & Co., Inc.; Controller (5/96 to Present) of Martin J. Whitman & Co., Inc.; Assistant Controller (10/94 to 4/96) of Longstreet Investment Corp and Emerald Investment Partners, L.P.; Assistant Controller (1/93 to 4/94) and Staff Accountant (1/92 to 12/92) of Equity Strategies Portfolio, Inc.; Payroll manager (5/91 to 12/93) of M.J. Whitman, L.P. |
| IAN M. KIRSCHNER<br>767 Third Avenue<br>New York, NY 10017-2023 | 43 | General<br>Counsel and<br>Secretary | General Counsel and Secretary of the Trust since inception; General Counsel and Secretary (8/96 to Present) of Danielson Holding Corporation; General Counsel and Secretary (1/96 to Present) of MJWHC, M.J. Whitman, Inc., and M. J. Whitman Advisers, Inc.; General Counsel and Secretary (1/97 to Present) of Third Avenue Trust; General Counsel and Secretary (1/97 to Present) of EQSF Advisers, Inc.; Vice-President, General Counsel and Secretary (2/93 to 6/95) of 2 I Inc.; Of Counsel (10/90 to 10/92) to Morgan, Lewis & Bockius.   |

</TABLE>

-----  
1 Phyllis W. Beck is the sister of Martin J. Whitman, Chairman, Chief Executive Officer and a Trustee of the Trust and the Aunt of Barbara Whitman, a Trustee of the Trust; Barbara Whitman is the daughter of Martin J. Whitman.

The Trust does not pay any fees to its officers for their services as such, but does pay Trustees who are not affiliated with the Adviser a fee of \$1,500 for each meeting of the Board of Trustees that they attend, in addition to reimbursing all Trustees for travel and incidental expenses incurred by them in connection with their attendance at Board meetings. The Trust also pays the non-interested Trustees an annual stipend of \$2,000 in January of each year for the previous year's service. Since the Trust was organized in June, 1999, it has not paid any compensation to its Trustees for the prior fiscal year. Trustees do not receive any pension or retirement benefits.

-15-

<TABLE>  
<CAPTION>

COMPENSATION TABLE

| NAME AND POSITION HELD<br>-----                            | AGGREGATE COMPENSATION FROM<br>REGISTRANT * | TOTAL COMPENSATION FROM<br>REGISTRANT AND FUND COMPLEX PAID<br>TO TRUSTEES**<br>----- |
|--|---|---|
| <S>  | <C>   | <C>   |
| Phyllis W. Beck, Trustee                                   | \$ 0  | \$ 0  |
| Lucinda Franks, Trustee                                    | \$ 8,000                                    | \$ 27,666   |
| Gerald Hellerman, Trustee                                  | \$ 8,000                                    | \$ 36,166   |
| Marvin Moser, M.D., Trustee                                | \$ 8,000                                    | \$ 36,166   |
| Donald Rappaport, Trustee                                  | \$ 8,000                                    | \$ 8,000  |
| Myron M. Sheinfeld, Trustee                                | \$ 8,000                                    | \$ 36,166   |
| Martin Shubik, Trustee                                     | \$ 8,000                                    | \$ 33,166   |
| Charles C. Walden, Trustee                                 | \$ 8,000                                    | \$ 36,166   |
| Barbara Whitman, Trustee                                   | \$ 0  | \$ 0  |
| Martin J. Whitman, Chairman<br>and Chief Executive Officer | \$ 0  | \$ 0  |

\* Estimated for the Portfolio's first full fiscal year.

\*\* Includes estimated fees for the Portfolio's first full fiscal year and actual fees paid to the Trustees by other funds in the Fund Complex for the fiscal year ended October 31, 1998. Amount does not include reimbursed expenses for attending Board meetings, which amounted to \$4,983 for all Trustees as a group for the fiscal year ended October 31, 1998. Amounts for THIRD AVENUE HIGH YIELD FUND are for the period from February 12, 1998 (inception) through October 31, 1998. Amounts for THIRD AVENUE REAL ESTATE VALUE FUND are for the period from September 17, 1998 (inception) through October 31, 1998. For the fiscal year ended October 31, 1999, it is anticipated that in addition to the compensation specified above, the Trustees will receive additional compensation from THIRD AVENUE HIGH YIELD FUND and THIRD AVENUE REAL ESTATE VALUE FUND in an estimated amount equal to \$1,500 and \$4,500 per Trustee, respectively, and THIRD AVENUE HIGH YIELD FUND and THIRD AVENUE REAL ESTATE VALUE FUND will reimburse the Trustees for approximately \$2,500 in expenses in the aggregate (such estimated amounts are based upon the aggregate compensation received and expenses incurred by the Trustees for the fiscal year ended October 31, 1998).

PRINCIPAL STOCKHOLDERS

As of September 8, 1999, the sole stockholder of the Portfolio was IDS Life Variable Account 10.

INVESTMENT ADVISER

The investment adviser to the Trust is EQSF Advisers, Inc. (the "Adviser"), 767 Third Avenue, New York, NY 10017. Martin J. Whitman is a controlling person of the Adviser. His control is based upon an irrevocable proxy signed by his children, who own, in the aggregate, 74% of the outstanding common stock of the Adviser, pursuant to a shareholders' agreement entered into by and among them. Mr. Whitman is Chairman and Chief Executive Officer of the Adviser.

The following individuals are affiliated persons of the Trust and Adviser:

| <S>               | CAPACITY WITH PORTFOLIOS<br>-----    | CAPACITY WITH ADVISER<br>-----               |
|-------------------|--------------------------------------|--|
| <S>               | <C>                                  | <C>  |
| Martin J. Whitman | Chairman and Chief Executive Officer | Chairman and Chief Executive Officer         |
| David M. Barse    | President, Chief Operating Officer   | President, Chief Operating Officer, Director |
| Michael Carney    | Treasurer, Chief Financial Officer   | Treasurer, Chief Financial Officer           |
| Ian M. Kirschner  | General Counsel and Secretary        | General Counsel and Secretary                |
| Kerri Weltz       | Assistant Treasurer                  | Assistant Treasurer                          |
| Barbara Whitman   | Trustee                              | Director                                     |

INVESTMENT ADVISORY AGREEMENT

The investment advisory services of the Adviser are furnished to the Portfolio

pursuant to an Investment Advisory Agreement approved by a majority of the Trustees who are not "interested persons" as defined in the 1940 Act and the Board of Trustees of the Trust, and by the sole shareholder of the Portfolio. The Adviser has provided investment advisory services to the Portfolio since its inception.

After the initial two-year term, the Investment Advisory Agreement will continue from year to year if approved annually by the Board of Trustees of the Trust or a majority of the outstanding voting securities of the Trust, and by vote of a majority of the Trustees who are not parties to the Investment Advisory Agreement or "interested persons" (as defined in the 1940 Act) of such parties, cast in person at a meeting called for the purpose of voting on such approval. The Investment Advisory Agreement may be terminated at any time without penalty, upon 60 days written notice by either party to the other, and will automatically be terminated upon any assignment thereof.

For the investment advisory services provided by the Adviser, the Portfolio has agreed to pay the Adviser a monthly fee of 1/12 of .90% (an annual rate of .90%) on the average daily net assets in the Portfolio during the prior month. Under the Investment Advisory Agreement, the Adviser supervises and assists in the management of the Trust, provides investment research and research evaluation and makes and executes recommendations for the purchase and sale of securities. The Adviser furnishes, at its expense, all necessary office equipment and personnel necessary for the performance of the obligations of the Adviser and pays the compensation of officers of the Trust. However, in the event that any person serving as an officer of the Trust has both executive duties attendant to such offices and administrative duties to the Trust apart from such office, the Adviser does not pay any amount relating to the performance of such administrative duties.

All other expenses incurred in the operation of the Portfolio and the continuous offering of its shares, including taxes, fees and commissions, bookkeeping expenses, Portfolio employees, expenses of redemption of shares, charges of administrators, custodians and transfer agents, auditing and legal expenses and fees of outside Trustees are borne by the Portfolio. From time to time, the Adviser may waive receipt of its fees and/or assume certain expenses of the Portfolio, which would have the effect of lowering the expense ratio of the Portfolio and increasing yield to investors. Under current arrangements, whenever, in any fiscal year, the Portfolio's normal operating expenses, including the investment advisory fee, but excluding brokerage commissions and interest and taxes, exceeds 1.3% of average daily net assets of the Portfolio, the Adviser is obligated to reimburse the Portfolio in an amount equal to that excess. If the Portfolio's operating expenses fall below the expense limitation, the Portfolio will begin repaying the Adviser for the amount contributed on behalf of the Portfolio. This repayment will continue for up to three years after the end of the fiscal year in which an expense is reimbursed by the Adviser, subject to the expense limitation, until the Adviser has been paid for the entire amount contributed or such three year period expires.

#### DISTRIBUTOR

The distribution services of M.J. Whitman, Inc., 767 Third Avenue, New York, NY 10017 ("MJW" or the "Distributor") are furnished to the Portfolio pursuant to a Distribution Agreement (the "Distribution Agreement"). Under such agreement, the Distributor shall (1) assist in the sale and distribution of the Portfolio's shares; and (2) qualify and maintain the qualification as a broker-dealer in such states where shares of the Portfolio are registered for sale.

Martin J. Whitman, David M. Barse, Michael Carney and Ian M. Kirschner, who are executive officers of the Trust and the Adviser, are also executive officers of the Distributor.

-17-

The Distribution Agreement will remain in effect provided that it is reviewed and approved at least annually by a majority of the Trustees who are not parties to the Distribution Agreement or interested persons of any such party and by the Board of Trustees or by a majority of the Portfolio's outstanding shares. The Distribution Agreement terminates automatically if it is assigned and may be terminated without penalty by either party on not less than 60 days written notice.

#### ADMINISTRATORS

The Portfolio has entered into a Services Agreement (the "Services Agreement") with First Data Investor Services Group, Inc. ("Investor Services Group"), a wholly owned subsidiary of First Data Corporation. The Services Agreement provides that Investor Services Group shall provide certain accounting, transfer

agency and shareholder services to the Portfolio. The Services Agreement has an initial three year term and may be terminated at any time (effective after such initial term) without penalty, upon 180 days written notice by either party to the other, and will automatically be terminated upon any assignment thereof. The Trust has agreed to pay Investor Services Group an amount equal to \$49,000 per annum plus .03% of aggregate assets of the Portfolio between \$20-50 million, .02% of aggregate assets between \$50-100 million and .01% of aggregate assets in excess of \$100 million. The Portfolio has entered into an Administration Agreement (the "Administration Agreement") with the Adviser, which provides that the Adviser shall provide all other administrative services to the Portfolio other than those relating to the investment portfolio of the Portfolio, the distribution of the Portfolio and the maintenance of the Portfolio's financial records and those performed by Investor Services Group under the Services Agreement. The Adviser has entered into a Sub-Administration Agreement with Investor Services Group pursuant to which Investor Services Group performs certain of those services on behalf of the Adviser.

#### CUSTODIAN

Custodial Trust Company (the "Custodian"), 101 Carnegie Center, Princeton, NJ 08540-6231, serves as custodian for the Portfolio pursuant to a custodian agreement. Under such agreement, the Custodian (1) maintains a separate account or accounts in the name of the Portfolio; (2) holds and transfers portfolio securities on account of the Portfolio; (3) accepts receipts and makes disbursements of money on behalf of the Portfolio; (4) collects and receives all income and other payments and distributions on account of the Portfolio's securities; and (5) makes periodic reports to the Board of Trustees concerning the Portfolio's operations.

#### TRANSFER AGENT

First Data Investor Services Group, Inc., 3200 Horizon Drive, P.O. Box 61503, King of Prussia, PA 19406-0903, is the transfer agent for the Portfolio.

#### INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP, 1177 Avenue of the Americas, New York, NY 10036, is the independent accountants for the Portfolio. The independent accountants audit the financial statements of the Portfolio following the end of each fiscal year and provide a report to the Board of Trustees of the results of the audit.

#### PORTFOLIO TRADING PRACTICES

Under the Investment Advisory Agreement between the Trust and the Adviser, the Adviser has the responsibility of selecting brokers and dealers. The Adviser must place portfolio transactions with brokers and dealers who render satisfactory service in the execution of orders at the most favorable prices and at reasonable commission rates, but has discretion to pay a greater amount if

-18-

it, in good faith, determines that such commission was reasonable in relation to the value of the brokerage and research services provided by such broker or dealer, either in terms of that particular transaction or in fulfilling the overall responsibilities of the Adviser to the Portfolio. Where transactions are executed in the over-the-counter market, or in the "third market" (the over-the-counter market in listed securities), the Portfolio will normally first seek to deal with the primary market makers. However, when the Portfolio considers it advantageous to do so, it will utilize the services of brokers, but will, in all cases, attempt to negotiate the best price and execution. The determination of what may constitute the most favorable price and execution in a securities transaction by a broker involves a number of considerations, including, without limitation, the overall direct net economic result to the Portfolio (involving both price paid or received and any commissions or other costs paid), the efficiency with which the transaction is effected, the ability to effect the transaction at all if selling large blocks is involved, the availability of the broker to stand ready to execute possibly difficult transactions in the future and the financial strength and stability of the broker. Such considerations are judgmental and are weighed by management in determining the overall reasonableness of brokerage commissions paid. In allocating any such portfolio brokerage on a national securities exchange, the Portfolio may consider the research, statistical and other factual information and services provided by brokers from time to time to the Adviser. Such services and information are available to the Adviser for the benefit of all clients of the Adviser and its affiliates and it is not practical for the Adviser to assign

a particular value to any such service.

The Adviser intends to use brokers affiliated with the Adviser as brokers for the Portfolio where, in its judgment, such firms will be able to obtain a price and execution at least as favorable as other qualified brokers. Martin J. Whitman, David M. Barse, Michael Carney and Ian M. Kirschner, who are executive officers of the Trust and the Adviser, are also executive officers of MJW and M.J. Whitman Senior Debt Corp. ("Senior Debt Corp."), a broker of private debt instruments under common control with MJW.

In determining the commissions to be paid to MJW and Senior Debt Corp., it is the policy of the Portfolio that such commissions will, in the judgment of the Adviser, be (i) at least as favorable as those which would be charged by other qualified brokers having comparable execution capability and (ii) at least as favorable as commissions contemporaneously charged by MJW or Senior Debt Corp., as the case may be, on comparable transactions for its most favored unaffiliated customers, except for any customers of MJW or Senior Debt Corp., as the case may be, considered by a majority of the disinterested Trustees not to be comparable to the Portfolio. The Portfolio does not deem it practicable and in its best interests to solicit competitive bids for commission rates on each transaction. However, consideration is regularly given to information concerning the prevailing level of commissions charged on comparable transactions by other qualified brokers.

The Trustees from time to time, at least on a quarterly basis, will review, among other things, all the Portfolio's portfolio transactions including information relating to the commissions charged by MJW and Senior Debt Corp. to the Portfolio and to their other customers, and information concerning the prevailing level of commissions charged by other qualified brokers. In addition, the procedures pursuant to which MJW and Senior Debt Corp. effects brokerage transactions for the Portfolio must be reviewed and approved no less often than annually by a majority of the disinterested Trustees.

The Adviser expects that it will execute a portion of the Portfolio's transactions through qualified brokers other than MJW and Senior Debt Corp. In selecting such brokers, the Adviser will consider the quality and reliability of the brokerage services, including execution capability and performance, financial responsibility, and investment information and other research provided by such brokers. Accordingly, the commissions charged by any such broker may be greater than the amount another firm might charge if management of the Trust determines in good faith that the amount of such commissions is reasonable in relation to the value of the brokerage services and research information provided by such broker to the Portfolio. Management of the Trust believes

-19-

that the research information received in this manner provides the Portfolio with benefits by supplementing the research otherwise available to the Portfolio. Over-the-counter purchases and sales will be transacted directly with principal market makers, except in those circumstances where the Portfolio can, in the judgment of its management, otherwise obtain better prices and execution of orders.

To the knowledge of the Portfolio, no affiliated person of the Portfolio receives give-ups or reciprocal business in connection with security transactions of the Portfolio. The Portfolio does not effect securities transactions through brokers in accordance with any formula, nor will it take the sale of Portfolio shares into account in the selection of brokers to execute security transactions. However, brokers who execute brokerage transactions for the Portfolio, including MJW and Senior Debt Corp., from time to time may effect purchases of Portfolio shares for their customers.

#### SHARE INFORMATION

All shares of the Portfolio have one vote and when duly issued will be fully paid and non-assessable. Shares have no preemptive, subscription or conversion rights and are freely transferable. The Trustees are authorized to re-classify and issue any unissued shares to any number of additional series without shareholder approval. Accordingly, the Trustees in the future, for reasons such as the desire to establish one or more additional Portfolios with different objectives, policies, risk considerations or restrictions, may create additional series or classes of shares. Any issuance of shares of such additional series would be governed by the Investment Company Act of 1940, as amended, and the laws of the State of Delaware.

Shares of the Portfolio have equal noncumulative voting rights which means that the holders of more than 50% of the shares voting for the election of Trustees

can elect 100% of the Trustees if they choose to do so, and, in such event, the holders of the remaining less than 50% of the shares voting for the election of Trustees will not be able to elect any person or persons to the Board of Trustees. The Shares of the Portfolio also have equal rights with respect to dividends, assets and liquidation of the Portfolio and are subject to any preferences, rights or privileges of any classes of shares of the Portfolio. The Trust is not required to and has no current intention of holding annual shareholder meetings, although special meetings may be called for purposes requiring shareholder approval, such as changing fundamental investment policies or upon the written request of 10% of the Portfolio shares to replace its Trustees.

#### PURCHASE ORDERS

The purchase of shares of the Portfolio is currently limited to separate accounts (the "Accounts") of insurance companies to fund the benefits of variable annuity or variable life insurance policies (the "Contracts") as explained in the Prospectus. The Portfolio reserves the right, in its sole discretion, to refuse purchase orders. Without limiting the foregoing, the Portfolio will consider exercising such refusal right when it determines that it cannot effectively invest the available funds on hand in accordance with the Portfolio's investment policies.

#### REDEMPTION OF SHARES

The procedure for redemption of Portfolio shares under ordinary circumstances is set forth in the Prospectus and in the separate prospectus relating to the Contracts which accompanies the Prospectus. In unusual circumstances, such as in the case of a suspension of the determination of net asset value, the right of redemption is also suspended and, unless redeeming shareholders withdraw their certificates from deposit, they will receive payment of the net asset value next determined after termination of the suspension. The right of redemption may be suspended or payment upon redemption deferred for more than seven days: (a) when trading on the New York

-20-

Stock Exchange (the "NYSE") is restricted; (b) when the NYSE is closed for other than weekends and holidays; (c) when the SEC has by order permitted such suspension; or (d) when an emergency exists making disposal of portfolio securities or valuation of net assets of the Portfolio not reasonably practicable; provided that applicable rules and regulations of the SEC shall govern as to whether the conditions prescribed in (a), (c) or (d) exist.

#### REDEMPTION IN KIND

The Portfolio has elected to be governed by Rule 18f-1 under the 1940 Act pursuant to which the Portfolio is obligated during any 90 day period to redeem shares for any one shareholder of record solely in cash up to the lesser of \$250,000 or 1% of the net asset value of the Portfolio at the beginning of such period. Should a redemption exceed such limitation, the Portfolio may deliver, in lieu of cash, readily marketable securities from its portfolio. The securities delivered will be selected at the sole discretion of the Portfolio, will not necessarily be representative of the entire portfolio and may be securities which the Portfolio would otherwise sell. The redeeming shareholder will usually incur brokerage costs in converting the securities to cash. The method of valuing securities used to make the redemptions in kind will be the same as the method of valuing portfolio securities and such valuation will be made as of the same time the redemption price is determined.

For purposes of determining the Portfolio's net asset value per share, readily marketable portfolio securities listed on the NYSE are valued, except as indicated below, at the last sale price reflected at the close of the regular trading session of the NYSE on the business day as of which such value is being determined. If there has been no sale on such day, the securities are valued at the mean of the closing bid and asked prices on such day. If no bid or asked prices are quoted on such day, then the security is valued by such method as the Board of Trustees shall determine in good faith to reflect its fair market value. Readily marketable securities not listed on the NYSE but listed on other national securities exchanges or admitted to trading on the National Association of Securities Dealers Automated Quotations, Inc. ("NASDAQ") National List are valued in a like manner. Portfolio securities traded on more than one national securities exchange are valued at the last sale price on the business day as of which such value is being determined as reflected on the tape at the close of the exchange representing the principal market for such securities.

Readily marketable securities traded in the over-the-counter market, including listed securities whose primary market is believed by the Adviser to be over-the-counter but excluding securities admitted to trading on the NASDAQ

National List, are valued at the mean of the current bid and asked prices as reported by NASDAQ or, in the case of securities not quoted by NASDAQ, the National Quotation Bureau or such other comparable sources as the Board of Trustees deems appropriate to reflect their fair value.

United States Government obligations and other debt instruments having sixty days or less remaining until maturity are stated at amortized cost. Debt instruments having a greater remaining maturity will be valued at the highest bid price obtained from a dealer maintaining an active market in that security or on the basis of prices obtained from a pricing service approved as reliable by the Board of Trustees. All other investment assets, including restricted and not readily marketable securities, are valued under procedures established by and under the general supervision and responsibility of the Portfolio's Board of Trustees designed to reflect in good faith the fair value of such securities.

As indicated in the Prospectus, the net asset value per share of the Portfolio's shares will be determined on each day that the NYSE is open for trading. The NYSE annually announces the days on which it will not be open for trading; the most recent announcement indicates that it will not be open on the following days: New Year's Day, President's Day, Martin Luther King, Jr. Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. However, the NYSE may close on days not included in that announcement.

-21-

#### DIVIDENDS, CAPITAL GAIN DISTRIBUTIONS AND TAXES

The Portfolio will elect to be taxed as a "regulated investment company" under the Code. So long as the Portfolio qualifies as a "regulated investment company", the Portfolio will not be subject to Federal income taxes to the extent it distributes its net investment income and net capital gains. If for any taxable year the Portfolio does not qualify for the special tax treatment afforded regulated investment companies, all of its taxable income, including any net capital gains, would be subject to tax at regular corporate rates (without any deduction for distributions to shareholders).

The Portfolio will either distribute or retain for reinvestment all or part of any net long-term capital gain. If any such net capital gain is retained, the Portfolio will be subject to a tax of 35% of such amount. In that event, the Portfolio expects to designate the retained amount as undistributed capital gains in a notice to its shareholders, each of whom (1) will be required to include in income for tax purposes, as long-term capital gains, its share of such undistributed amount, (2) will be entitled to credit its proportionate share of the tax paid by the Portfolio against its Federal income tax liability and to claim refunds to the extent the credit exceeds such liability, and (3) will increase its basis in its shares of the Portfolio by an amount equal to 65% of the amount of the undistributed capital gains included in such shareholder's gross income. A distribution by a Portfolio will be treated as paid during any calendar year if it is declared by the Portfolio in October, November or December of that year, payable to shareholders of record on a date during such month and paid by the Portfolio during January of the following year. Any such distributions paid during January of the following year will be deemed to be received on December 31 of the year the distribution is declared, rather than when the distribution is received.

Under the Code, amounts not distributed on a timely basis in accordance with a calendar year distribution requirement are subject to a 4% excise tax. To avoid the tax, the Portfolio must distribute during each calendar year, an amount equal to at least the sum of (1) 98% of its ordinary income (not taking into account any capital gains or losses) for the calendar year, (2) 98% of its capital gains in excess of its capital losses for the twelve-month period ending on October 31 of the calendar year (unless an election is made by a Portfolio with a November or December year end to use the Portfolio's fiscal year), and (3) all ordinary income and net capital gains for previous years that were not previously distributed.

The Federal income tax treatment of the various high yield debt securities and other debt instruments (collectively, "Instruments" and individually, an "Instrument") to be acquired by the Portfolio will depend, in part, on the nature of those Instruments and the application of various tax rules. The Portfolio may derive interest income through the accrual of stated interest payments or through the application of the original issue discount rules, the market discount rules or other similar provisions. The Portfolio may be required to accrue original issue discount income, and in certain circumstances the Portfolio may be required to accrue stated interest even though no concurrent cash payments will be received. Moreover, it is the position of the IRS that a holder of a debt instrument subject to the original issue discount rules is required to recognize interest income regardless of the financial condition of

the obligor, even where there is no reasonable expectancy that the Instrument will be redeemed according to its terms. If the Portfolio acquires an Instrument at a discount and the terms of that Instrument are subsequently modified, the Portfolio could be required to recognize gain at the time of the modification even though no cash payments will have been received at that time. The market discount rules, as well as certain other provisions, may require that a portion of any gain recognized on the sale, redemption or other disposition of an Instrument be treated as ordinary income as opposed to capital gain. Also, under the market discount rules, if the Portfolio were to receive a partial payment on an Instrument, the Portfolio could be required to recognize ordinary income at the time of the partial payment, even though the Instrument may ultimately be settled at an overall loss. As a result of these and other rules, the Portfolio may be required to recognize taxable

-22-

income which it would be required to distribute, even though the underlying Instruments have not made concurrent cash distributions to the Portfolio.

The body of law governing these Instruments is complex and not well developed. Thus the Portfolio and its advisors may be required to interpret various provisions of the Internal Revenue Code and Regulations and take certain positions on the Portfolio's tax returns, in situations where the law is somewhat uncertain.

#### PERFORMANCE INFORMATION

Performance information for the Portfolio may appear in advertisements, sales literature, or reports to shareholders or prospective shareholders. Performance information in advertisements and sales literature may be expressed as "average annual return" and "total return."

The Portfolio's average annual return quotation is computed in accordance with a standardized method prescribed by rules of the SEC. The average annual return for a specific period is found by first taking a hypothetical \$1,000 investment ("initial investment") in the Portfolio's shares on the first day of the period and computing the redeemable value of that investment at the end of the period. The redeemable value is then divided by the initial investment, and this quotient is taken to the Nth root (N representing the number of years in the period) and 1 is then subtracted from the result, which is then expressed as a percentage. The calculation assumes that all income and capital gains dividends paid by the Portfolio have been reinvested at net asset value on the reinvestment dates during the period.

Calculation of the Portfolio's total return is subject to a standardized formula. Total return performance for a specific period is calculated by taking an initial investment in the Portfolio's shares on the first day of the period and computing the redeemable value of that investment at the end of the period. The total return percentage is then determined by subtracting the initial investment from the redeemable value and dividing the remainder by the initial investment and expressing the result as a percentage. The calculation assumes that all income and capital gains dividends by the Portfolio have been reinvested at net asset value on the reinvestment dates during the period. Total return may also be shown as the increased dollar value of the hypothetical investment over the period.

As of September 1, 1999, the Portfolio had not commenced investment operations and, accordingly, no performance information is included for the Portfolio.

PERFORMANCE OF ADVISER. The Adviser manages the Third Avenue Value Fund (the "Value Fund"), which served as the model for the Portfolio. The Portfolio has substantially the same investment objective, policies and strategies as the Value Fund. In addition, the Adviser intends the Portfolio to be managed by the same personnel and to continue to have closely similar investment strategies, techniques and characteristics as the Value Fund. Past investment performance of the Value Fund, as shown in the table below, may be relevant to your consideration of investment in the Portfolio. The investment performance of the Value Fund is not necessarily indicative of future performance of the Portfolio. As of the date of this SAI, the Portfolio had not yet commenced investment operations and therefore had no performance of its own. Also, the operating expenses of the Portfolio will be different from the operating expenses of the Value Fund. The investment performance of the Value Fund is provided merely to indicate the experience of the Adviser in managing a similar investment portfolio. The data does not reflect any fees that may be accessed at the Contract level as explained in the Prospectus. Such fees would reduce the total return figures shown below.

The data set forth below are adjusted to reflect the Portfolio's projected operating expenses for its first year of operation.

Average Annual Total Return for Third Avenue Value Fund's Shares  
(A Separate Mutual Fund from the Portfolio)  
For the Periods Ended October 31, 1998  
(adjusted to reflect projected operating expenses of the Portfolio)

| 1 Year<br>----- | 5 Years<br>----- | Since Inception (1991)<br>----- |
|-----------------|------------------|---------------------------------|
| (4.08%)         | 13.39%           | 19.52%                          |

The past performance of the Value Fund is no guarantee of the future performance of the Value Fund or the Portfolio.

FINANCIAL STATEMENTS

The Portfolio will issue unaudited semi-annual and audited annual financial statements.

Appendix

Description of Corporate Bond Ratings

Standard & Poor's Ratings Group

The ratings are based on current information furnished by the issuer or obtained by Standard & Poor's from other sources it considers reliable. Standard & Poor's does not perform any audit in connection with any rating and may, on occasion, rely on unaudited financial information. The ratings may be changed, suspended or withdrawn as a result of changes in, or unavailability of, such information or for other circumstances.

The ratings are based, in varying degrees, on the following considerations:

- I. Likelihood of default-capacity and willingness of the obligor as to the timely payment of interest and repayment of principal in accordance with the terms of the obligation.
- II. Nature and provisions of the obligation.
- III. Protection afforded by, and relative position of the obligation in the event of bankruptcy, reorganization or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

AAA - Debt rated "AAA" has the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong.

AA - Debt rated "AA" has a very strong capacity to pay interest and repay principal and differs from the higher rated issues only in small degree.

A - Debt rated "A" has a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories.

BBB - Debt rated "BBB" is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories.

BB, B, CCC, CC, C - Debt rated "BB", "B", "CCC", "CC", and "C" is regarded, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. "BB" indicates the lowest degree of speculation and "C" the highest degree of speculation. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

BB - Debt rated "BB" has less near-term vulnerability to default than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial or economic conditions which could lead to inadequate capacity to meet timely interest and principal payments. The "BB" rating category is also used for debt subordinated to senior debt that is assigned an actual or implied "BBB" rating.

B - Debt rated "B" has a greater vulnerability to default but currently has the capacity to meet interest payments and principal repayments. Adverse business, financial or economic conditions will likely impair capacity or willingness to pay interest and repay principal. The "B" rating category is also used for debt subordinated to senior debt that is assigned an actual or implied "BB" or "BB-" rating.

CCC - Debt rated "CCC" has a currently identifiable vulnerability to default, and is dependent upon favorable business, financial and economic conditions to meet timely payment of interest and repayment of principal. In the event of adverse business, financial or economic conditions, it is not likely to have the capacity to pay interest and repay principal. The "CCC" rating category is also used for debt subordinated to senior debt that is assigned an actual or implied "B" or "B-" rating.

CC - The rating "CC" is typically applied to debt subordinated to senior debt that is assigned an actual or implied "CCC" rating.

C - The rating "C" is typically applied to debt subordinated to senior debt which is assigned an actual or implied "CCC-" debt rating. The "C" rating may be used to cover a situation where a bankruptcy petition has been filed, but debt service payments are continued.

C1 - The rating "C1" is reserved for income bonds on which no interest is being paid.

D - Debt rated "D" is in payment default. The "D" rating category is used when interest payments or principal payments are not made on the date due even if the applicable grace period has not expired, unless Standard & Poor's believes that such payments will be made during such grace period. The "D" rating also will be used upon the filing of a bankruptcy petition if debt service payments are jeopardized.

Plus (+) or Minus (-): The ratings from "AA" to "CCC" may be modified by the addition of a plus or minus sign to show relative standing within the major categories.

-25-

MOODY'S INVESTORS SERVICE, INC.

Aaa - Bonds which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edged." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa - Bonds which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high-grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities, fluctuation of protective elements may be of greater amplitude, or there may be other elements present which make the long-term risk appear somewhat greater than the Aaa securities.

A - Bonds which are rated A possess many favorable investment attributes and are to be considered as upper-medium-grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment some time in the future.

Baa - Bonds which are rated Baa are considered as medium-grade obligations (i.e., they are neither highly protected nor poorly secured). Interest payments and principal security appear adequate for the present, but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

Ba - Bonds which are rated Ba are judged to have speculative elements: their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B - Bonds which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Caa - Bonds which are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

Ca - Bonds which are rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings.

C - Bonds which are rated C are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing. Moody's applies numerical modifiers: 1, 2 and 3 in each generic rating classification from Aa through B in its corporate bond rating system. The modifier 1 indicates that the security ranks in the higher end of its generic rating category, the modifier 2 indicates a mid-range ranking, and the modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

-26-

BOARD OF TRUSTEES  
Phyllis W. Beck  
Lucinda Franks  
Gerald Hellerman  
Marvin Moser  
Donald Rappaport  
Myron M. Sheinfeld  
Martin Shubik  
Charles C. Walden  
Barbara Whitman  
Martin J. Whitman

OFFICERS  
Martin J. Whitman  
Chairman, Chief Executive Officer

David M. Barse  
President, Chief Operating Officer

Michael Carney  
Chief Financial Officer, Treasurer

Kerri Weltz, Assistant Treasurer

Ian M. Kirschner, General Counsel and Secretary

INVESTMENT ADVISER  
EQSF Advisers, Inc.  
767 Third Avenue  
New York, NY 10017-2023

DISTRIBUTOR  
M.J. Whitman, Inc.  
767 Third Avenue  
New York, NY 10017-2023

TRANSFER AGENT  
First Data Investor Services Group, Inc.  
3200 Horizon Drive  
P.O. Box 61503  
King of Prussia, PA 19406-0903

(610) 239-4600  
(800) 443-1021 (toll-free)

CUSTODIAN  
Custodial Trust Company  
101 Carnegie Center  
Princeton, NJ 08540-6231

[GRAPHIC OMITTED]

767 THIRD AVENUE  
NEW YORK, NY 10017  
Phone (212) 888-5222  
Toll Free (800) 443-1021  
www.thirdavenuefunds.com

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholder and Trustees of  
Third Avenue Variable Series Trust -  
Third Avenue Value Portfolio

In our opinion, the accompanying statement of assets and liabilities and the related statement of operations present fairly, in all material respects, the financial position of Third Avenue Variable Series Trust - Third Avenue Value Portfolio (the "Fund") at September 10, 1999, and the results of its operations for the one day period then ended, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these financial statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP  
1177 Avenue of the Americas  
New York, New York 10036  
September 10, 1999

THIRD AVENUE VARIABLE SERIES TRUST  
THIRD AVENUE VALUE PORTFOLIO  
STATEMENT OF ASSETS AND LIABILITIES  
SEPTEMBER 10, 1999

ASSETS

|                         |        |
|-------------------------|--------|
| Cash                    | \$ 100 |
| Receivable from Adviser | 55,000 |
|                         | -----  |
| Total assets            | 55,100 |

LIABILITIES

|                            |        |
|----------------------------|--------|
| Organization costs payable | 55,000 |
|                            | -----  |
| Total liabilities          | 55,000 |
|                            | -----  |
| Net assets                 | \$ 100 |
|                            | =====  |

SUMMARY OF NET ASSETS

|   |         |
|---|---------|
| Common stock, \$ 0.001 par value, unlimited<br>shares authorized, 10 shares outstanding | \$ -    |
| Additional paid in capital  | 100     |
|   | -----   |
| Net assets applicable to outstanding capital shares                                     | \$100   |
|   | =====   |
| Net asset value per share   | \$10.00 |
|   | =====   |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

F-1

THIRD AVENUE VARIABLE SERIES TRUST  
THIRD AVENUE VALUE PORTFOLIO  
STATEMENT OF OPERATIONS  
FOR THE ONE DAY PERIOD ENDED SEPTEMBER 10, 1999

|                                    |          |
|------------------------------------|----------|
| Organization expenses              | \$55,000 |
| Expenses reimbursed by the Adviser | (55,000) |
|                                    | -----    |
| Net income/loss                    | 0        |
|                                    | =====    |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

F-2

THIRD AVENUE VARIABLE SERIES TRUST  
THIRD AVENUE VALUE PORTFOLIO  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 10, 1999

1. ORGANIZATION:

Third Avenue Variable Series Trust (the "Trust") is an open-end, non-diversified management investment company organized as a Delaware business trust pursuant to an Agreement and Declaration of Trust dated as of June 16, 1999. The Trust currently consists of one investment series: Third Avenue Value Portfolio (the "Portfolio"). The Portfolio has had no operations to date, other than the sale of 10 shares for the amount of \$100 on September 10, 1999.

Costs incurred in connection with the organization of the Portfolio, estimated at \$55,000, will be borne by the Portfolio, subject to the expense limitation described in Note 2 below.

The Portfolio's objective is long-term capital appreciation which it seeks to achieve primarily by acquiring common stocks of well-financed companies at a substantial discount to what the Adviser believes is their true value.

The financial statements have been prepared in accordance with generally

accepted accounting principles. These accounting principles require that management make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Such estimates and assumptions may differ from actual results.

2. INVESTMENT ADVISORY SERVICES:

The Portfolio has an Investment Advisory Agreement with EQSF Advisers, Inc. (the "Adviser") for investment advice and certain management functions. The terms of the Investment Advisory Agreement provide for a monthly fee of 1/12 of 0.90% (an annual fee rate of 0.90%) of the total average daily net assets of the Portfolio, payable each month. Additionally, under the terms of the Investment Advisory Agreement, the Adviser pays certain expenses on behalf of the Portfolio, which are reimbursable by the Portfolio, including salaries of non-officer employees and other miscellaneous expenses. Whenever, in any fiscal year, the Portfolio's normal operating expenses, including the investment advisory fee, but excluding brokerage commissions and interest and taxes, exceeds 1.3% of average daily net assets of the Portfolio, the Adviser is obligated to reimburse the Portfolio in an amount equal to that excess. Such reimbursed expenses may be paid to the Adviser during the following three year period to the extent that the payment of such expenses would not cause the Portfolio to exceed the preceding limitation. The Portfolio recorded its initial organization costs of \$55,000 as an expense as of September 10, 1999 and recognized an offsetting expense reduction as a result of the Adviser's commitment to reimburse these costs. The Portfolio may be obliged to repay some or all of these costs to the Adviser if the preceding conditions are met.

F-3

PART C - OTHER INFORMATION

ITEM 23. EXHIBITS

Exhibits filed pursuant to Form N-1A:

- (a) (1) Agreement and Declaration of Trust and Certificate of Trust are incorporated by reference to the Registrant's Registration Statement on Form N-1A, file No. 333-81141, filed on June 21, 1999.
- (2) Designation of Subtrust for Third Avenue Value Portfolio is incorporated by reference to the Registrant's Registration Statement on Form N-1A, file No. 333-81141, filed on June 21, 1999.
- (b) By-Laws are incorporated by reference to the Registrant's Registration Statement on Form N-1A, file No. 333-81141, filed on June 21, 1999.
- (c) Reference is made to Articles V and VI of the Trust's Agreement and Declaration of Trust.
- (d) Investment Advisory Contract is filed herewith.
- (e) Distribution Agreement is filed herewith.
- (g) Custody Agreement between Third Avenue Variable Series Trust and Custodial Trust Company is filed herewith.
- (h) (1) Services Agreement between Third Avenue Variable Series Trust and First Data Investor Services Group, Inc. is filed herewith.
- (2) Administration Agreement between Third Avenue Variable Series Trust and EQSF Advisers, Inc. is filed herewith.
- (3) Sub-Administration Agreement between EQSF Advisers, Inc. and First Data Investor Services Group, Inc. is filed herewith.
- (i) (a) Opinion and Consent of Counsel regarding the legality of the securities being issued is filed herewith.
- (j) Consent of Auditors is filed herewith.

(n) Not applicable.

Item 24. Persons Controlled By or Under Common Control with Registrant.

Insofar as the following have substantially the same boards of trustees or directors, they may be deemed to be under common control with the Portfolio: Third Avenue Value Fund, Third Avenue Small-Cap Value Fund, Third Avenue High Yield Fund and Third Avenue Real Estate Value Fund.

Item 25. Indemnification.

Reference is made to Article IV of the Registrant's Trust Instrument.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to trustees, officers and controlling persons of the Registrant by the Registrant pursuant to the Trust's Trust Instrument, its By-Laws or otherwise, the Registrant is aware that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Act and, therefore, is unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by trustees, officers or controlling persons of the Registrant in connection with the successful defense of any act, suit or proceeding) is asserted by such trustees, officers or controlling persons in connection with shares being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such

indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issues.

Item 26. Business and other connections of investment adviser.

EQSF Advisers, Inc., 767 Third Avenue, New York, New York 10017-2023 provides investment advisory services to investment companies and as of September 3, 1999 had approximately \$1,506 million in assets under management.

For information as to any other business, vocation or employment of a substantial nature in which each Director or officer of the Registrant's investment adviser has been engaged for his own account or in the capacity of Director, officer, employee, partner or trustee, reference is made to Form ADV (File #801-27792) filed by it under the Investment Advisers Act of 1940.

Item 27. Principal underwriters.

- (a) Not Applicable.
- (b) Not Applicable.
- (c) Not Applicable.

Item 28. Location of accounts and records.

All records described in Section 31 (a) of the Investment Company Act of 1940, as amended and Rules 17 CFR 270.31a-1 to 31a-31 promulgated thereunder, are maintained by the Trust's Investment Adviser, EQSF Advisers, Inc. 767 Third Avenue, NY, NY 10017-2023, except for those records maintained by the Trust's Custodian, Custodial Trust Company, 101 Carnegie Center, Princeton, NJ 08540-6231, and the Trust's Shareholder Service and Fund Accounting and Pricing Agent, First Data Corporation, 3200 Horizon Drive, P.O. Box 61503, King of Prussia, PA 19406-0903.

Item 29. Management services.  
None.

Item 30. Undertakings.  
Not applicable

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933 and the Investment Company Act of 1940, as amended, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, and State of New York on the 10th day of September, 1999.

THIRD AVENUE VARIABLE SERIES TRUST  
Registrant

/s/ Martin J. Whitman  
-----  
Martin J. Whitman, Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement of Third Avenue Variable Series Trust has been signed below by the following persons in the capacities and on the date indicated.

| Signature   | Capacity                | Date    |
|---|-------------------------|---------|
| /s/ MARTIN J. WHITMAN<br>-----<br>Martin J. Whitman   | Chief Executive Officer | 9/10/99 |
| /s/ MICHAEL CARNEY<br>-----<br>Michael Carney         | Chief Financial Officer | 9/10/99 |
| /s/ PHYLLIS W. BECK<br>-----<br>Phyllis W. Beck       | Trustee                 | 9/10/99 |
| /s/ MARTIN SHUBIK<br>-----<br>Martin Shubik           | Trustee                 | 9/10/99 |
| /s/ MYRON M. SHEINFELD<br>-----<br>Myron M. Sheinfeld | Trustee                 | 9/10/99 |
| /s/ GERALD HELLERMAN<br>-----<br>Gerald Hellerman     | Trustee                 | 9/10/99 |
| /s/ CHARLES C. WALDEN<br>-----<br>Charles C. Walden   | Trustee                 | 9/10/99 |
| /s/ MARVIN MOSER<br>-----<br>Marvin Moser             | Trustee                 | 9/10/99 |
| /s/ BARBARA WHITMAN<br>-----<br>Barbara Whitman       | Trustee                 | 9/10/99 |
| /s/ LUCINDA FRANKS<br>-----<br>Lucinda Franks         | Trustee                 | 9/10/99 |
| /s/ DONALD RAPPAPORT<br>-----<br>Donald Rappaport     | Trustee                 | 9/10/99 |

SCHEDULE OF EXHIBITS TO FORM N-1A

| EXHIBIT<br>NUMBER | EXHIBIT                        |
|-------------------|--------------------------------|
| D                 | Investment Advisory Contract   |
| E                 | Distribution Agreement         |
| G                 | Custody Agreement              |
| H (1)             | Services Agreement             |
| (2)               | Administration Agreement       |
| (3)               | Sub-Administration Agreement   |
| I                 | Opinion and Consent of Counsel |
| J                 | Consent of Auditors            |

INVESTMENT ADVISORY AGREEMENT

-----

INVESTMENT ADVISORY AGREEMENT, dated as of September 1, 1999, between Third Avenue Variable Series Trust (the "Trust"), a Delaware business trust, on behalf of its series, Third Avenue Value Portfolio (the "Fund") and EQSF Advisers, Inc. (the "Adviser"), a New York corporation.

In consideration of the mutual promises and agreements herein contained and other good and valuable consideration, the receipt of which is hereby acknowledged, it is agreed by and between the parties hereto as follows:

1. IN GENERAL

The Adviser agrees, all as more fully set forth herein, to act as investment adviser to the Fund with respect to the investment of the assets of the Fund and to supervise and arrange the purchase and sale of assets held in the investment portfolio of the Trust. The Adviser may delegate any or all of its responsibilities to one or more sub-advisers or administrators, subject to the approval of the Board of Trustees of the Trust. Such delegation shall not relieve the Adviser of its duties and responsibilities hereunder.

2. DUTIES AND OBLIGATIONS OF THE ADVISER WITH RESPECT TO INVESTMENTS OF ASSETS OF THE FUND

(a) Subject to the succeeding provisions of this paragraph and subject to the direction and control of the Trust's Board of Trustees, the Adviser shall (i) act as investment adviser for and supervise and manage the investment and reinvestment of the Fund's assets and in connection therewith have complete discretion in purchasing and selling securities and other assets for the Fund and in voting, exercising consents and exercising all other rights appertaining to such securities and other assets on behalf of the Fund; and (ii) arrange for the purchase and sale of securities and other assets held in the investment portfolio of the Fund. Nothing contained herein shall be construed to restrict the Fund's right to hire its own employees or to contract separately with EQSF Advisers, Inc. or others to provide administrative services to the Fund, including but not limited to, the calculation of the net asset value of the Fund's shares.

(b) In the performance of its duties under this Agreement, the Adviser shall at all times use all reasonable efforts to conform to, and act in accordance with, any requirements imposed by (i) the provisions of the Investment Company Act of 1940, as amended (the "Act"), and of any rules or regulations in force thereunder; (ii) any other applicable provision of law;

(iii) the provisions of the Declaration of Trust and By-Laws of the Fund, as such documents are amended from time to time; (iv) the investment objectives, policies and restrictions applicable to the Fund as set forth in the Fund's Prospectus (including its Statement of Additional Information) and (v) any policies and determinations of the Board of Trustees of the Trust.

(c) The Adviser will seek to provide qualified personnel to fulfill its duties hereunder and will bear all costs and expenses (including any overhead and personnel costs) incurred in connection with its duties hereunder and shall bear the costs of any salaries or trustees fees of any officers or trustees of the Trust who are affiliated persons (as defined in the Act) of the Adviser. Subject to the foregoing, the Fund shall be responsible for the payment of all the Fund's other expenses, including (i) payment of the fees payable to the Adviser under paragraph 4 hereof; (ii) organizational expenses; (iii) brokerage fees and commissions; (iv) taxes; (v) interest charges on borrowings; (vi) the cost of liability insurance or fidelity bond coverage for the Fund officers and employees, and trustees' and officers' errors and omissions insurance coverage; (vii) legal, auditing and accounting fees and expenses; (viii) charges of the Fund's administrator, custodian, transfer agent and other service providers, (ix) the Fund's pro rata portion of dues, fees and charges of any trade association of which the Fund is a member; (x) the expenses of printing, preparing and mailing proxies, stock certificates and reports, including the Fund's prospectus and statement of additional information, and notices to shareholders; (xi) filing fees for the registration or qualification of the Fund and its shares under federal or state securities laws; (xii) the fees and expenses involved in registering and maintaining registration of the Fund's shares with the Securities and Exchange Commission; (xiii) the expenses of holding shareholder meetings; (xiv) the compensation, including fees, of any of the Trust's trustees, officers or employees who are not affiliated persons of the Adviser; (xv) all expenses of computing the Fund's net asset value per share, including any equipment or services obtained solely for the purpose of pricing shares or valuing the Fund's investment portfolio; (xvi) expenses of personnel performing shareholder servicing functions and all other distribution expenses payable by the Fund; (xvii) expenses of redemption of shares and (xviii) litigation and other extraordinary or non-recurring expenses and other expenses properly payable by the Fund.

(d) The Adviser shall give the Fund the benefit of its best judgment and effort in rendering services hereunder, but neither the Adviser nor any of its officers, directors, employees, agents or controlling persons shall be liable for any act or omission or for any loss sustained by the Fund in connection with the matters to which this Agreement relates, except a loss resulting from willful misfeasance, bad faith or gross negligence in the performance of its duties, or by reason of its reckless disregard of its

obligations and duties under this Agreement; provided, however, that the foregoing shall not constitute a waiver of any rights which the Fund may have which may not be waived under applicable law.

(e) Nothing in this Agreement shall prevent the Adviser or any director, officer, employee or other affiliate thereof from acting as investment adviser for any other person, firm or corporation, or from engaging in any other lawful activity, and shall not in any way limit or restrict the Adviser or any of its directors, officers, employees or agents from buying, selling or trading any securities for its or their own accounts or for the accounts of others for whom it or they may be acting.

### 3. Portfolio Transactions

In the course of the Adviser's execution of portfolio transactions for the Fund, it is agreed that the Adviser shall employ securities brokers and dealers which, in its judgment, will be able to satisfy the policy of the Fund to seek the best execution of its portfolio transactions at reasonable expenses. For purposes of this agreement, "best execution" shall mean prompt, efficient and reliable execution at the most favorable price obtainable. Under such conditions as may be specified by the Trust's Board of Trustees in the interest of its shareholders and to ensure compliance with applicable law and regulations, the Adviser may (a) place orders for the purchase or sale of the Fund's portfolio securities with its affiliates, M.J. Whitman, Inc. and M.J. Whitman Senior Debt Corp.; (b) pay commissions to brokers other than its affiliates which are higher than might be charged by another qualified broker to obtain brokerage and/or research services considered by the Adviser to be useful or desirable in the performance of its duties hereunder and for the investment management of other advisory accounts over which it or its affiliates exercise investment discretion; and (c) consider sales by brokers (other than its affiliates distributor) of shares of the Fund and any other mutual fund for which it or its affiliates act as investment adviser, as a factor in its selection of brokers and dealers for the Fund's portfolio transactions.

### 4. COMPENSATION OF THE ADVISER

(a) The Fund agrees to pay to the Adviser out of the Fund's assets and the Adviser agrees to accept as full compensation for all services rendered

by or through the Adviser a fee computed daily and payable monthly in arrears an amount equal to 1/12 of .90% of the Fund's daily average net assets for such month. For any period less than a month during which this Agreement is in effect, the fee shall be prorated according to the proportion which such period

bears to a full month of 28, 29, 30 or 31 days, as the case may be.

(b) For purposes of this Agreement, the net assets of the Fund shall be calculated pursuant to the procedures adopted by resolutions of the Trustees of the Trust for calculating the net asset value of the Fund's shares.

#### 5. Indemnity.

(a) The Fund hereby agrees to indemnify the Adviser and each of the Adviser's directors, officers, employees, and agents (including any individual who serves at the Adviser's request as director, officer, partner, trustee or the like of another corporation) and controlling persons (each such person being an "indemnitee) against any liabilities and expenses, including amounts paid in satisfaction of judgments, in compromise or as fines and penalties, and counsel fees (all as provided in accordance with applicable corporate law) reasonably incurred by such indemnitee in connection with the defense or disposition of any action, suit or other proceeding, whether civil or criminal, before any court or administrative or investigative body in which he may be or may have been involved as a party or otherwise or with which he may be or may have been threatened, while acting in any capacity set forth above in this paragraph or thereafter by reason of his having acted in any such capacity, except with respect to any matter as to which he shall have been adjudicated not to have acted in good faith in the reasonable belief that his action was in the best interest of the Fund and furthermore, in the case of any criminal proceeding, so long as he had no reasonable cause to believe that the conduct was unlawful, provided, however, that (1) no indemnitee shall be indemnified hereunder against any liability to the Fund or its shareholders or any expense of such indemnitee arising by reason of (i) willful misfeasance, (ii) bad faith, (iii) gross negligence or (iv) reckless disregard of the duties involved in the conduct of his position (the conduct referred to in such clauses (i) through (v) being sometimes referred to herein as "disabling conduct"), (2) as to any matter disposed of by settlement or a compromise payment by such indemnitee, pursuant to a consent decree or otherwise, no indemnification either for said payment or for any other expenses shall be provided unless there has been a determination that such settlement or compromise is in the best interests of the Fund and that such indemnitee appears to have acted in good faith in the reasonable belief that his action was in the best interest of the Fund and did not involve disabling conduct by such indemnitee and (3) with respect to any action, suit or other proceed-

ing voluntarily prosecuted by any indemnitee as plaintiff, indemnification shall

be mandatory only if the prosecution of such action, suit or other proceeding by such indemnitee was authorized by a majority of the full Board of the Trust. Notwithstanding the foregoing the Fund shall not be obligated to provide any such indemnification (i) to the extent such provision would waive any right which the Fund cannot lawfully waive or (ii) with respect to any obligation, liability or expense of any other series of shares of the Trust.

(b) The Fund shall make advance payments in connection with the expenses of defending any action with respect to which indemnification might be sought hereunder if the Fund receives a written affirmation of the indemnitee's good faith belief that the standard of conduct necessary for indemnification has been met and a written undertaking to reimburse the Fund unless it is subsequently determined that he is entitled to such indemnification and if the trustees of the Trust determine that the facts then known to them would not preclude indemnification. In addition, at least one of the following conditions must be met: (A) the indemnitee shall provide a security for his undertaking, (B) the Fund shall be insured against losses arising by reason of any lawful advances, or (C) a majority of a quorum of trustees of the Trust who are neither "interested persons" of the Trust (as defined in Section 2(a)(19) of the Act) nor parties to the proceeding ("Disinterested Non-Party Trustees") or an independent legal counsel in a written opinion, shall determine, based on a review of readily available facts (as opposed to a full trial-type inquiry), that there is reason to believe that the indemnitee ultimately will be found entitled to indemnification.

(c) All determinations with respect to indemnification hereunder shall be made (1) by a final decision on the merits by a court or other body before whom the proceeding was brought that such indemnitee is not liable by reason of disabling conduct or, (2) in the absence of such a decision, by (i) a majority vote of a quorum of the Disinterested Non-Party Trustees of the Trust, or (ii) if such a quorum is not obtainable or even, if obtainable, if a majority vote of such quorum so directs, independent legal counsel in a written opinion.

The rights accruing to any indemnitee under these provisions shall not exclude any other right to which he may be lawfully entitled.

## 6. DURATION AND TERMINATION

This Agreement shall become effective upon the date hereof and shall continue in effect for a period of two years and thereafter from year to year, but only

so long as such continuation is specifically approved at least annually in

accordance with the requirements of the Act.

This Agreement may be terminated by the Adviser at any time without penalty upon giving the Fund sixty days written notice (which notice may be waived by the Fund) and may be terminated by the Fund at any time without penalty upon giving the Adviser sixty days notice (which notice may be waived by the Adviser), provided that such termination by the Fund shall be directed or approved by the vote of a majority of the Trustees of the Trust in office at the time or by the vote of the holders of a "majority of the voting securities" (as defined in the Act) of the Fund at the time outstanding and entitled to vote. This Agreement shall terminate automatically in the event of its assignment (as "assignment" is defined in the Act and the rules thereunder.)

It is understood and hereby agreed that the words "Third Avenue" is the property of the Adviser for copyright and other purposes. The Fund further agrees that the words "Third Avenue" may freely be used by the Adviser for other investment companies, entities or products. The Fund further agrees that, in the event that the Adviser shall cease to act as investment adviser to the Fund, the Fund shall promptly take all necessary and appropriate action to change its name to names which do not include the words "Third Avenue"; provided, however, that the Fund may continue to use the words "Third Avenue" if the Adviser consents in writing to such use.

#### 7. NOTICES

Any notice under this Agreement shall be in writing to the other party at such address as the other party may designate from time to time for the receipt of such notice and shall be deemed to be received on the earlier of the date actually received or on the fourth day after the postmark if such notice is mailed first class postage prepaid.

#### 8. GOVERNING LAW

This Agreement shall be construed in accordance with the laws of the State of New York for contracts to be performed entirely therein and in accordance with the applicable provisions of the Act.

6

IN WITNESS WHEREOF, the parties hereto have caused the foregoing instrument to be executed by their duly authorized officers, all as of the day and the year first above written.

THIRD AVENUE VARIABLE SERIES TRUST

on behalf of its series THIRD AVENUE VALUE  
PORTFOLIO

By

-----

Name:

Title:

EQSF ADVISERS, INC.

By

-----

Name: Martin J. Whitman

Title:

## DISTRIBUTION AGREEMENT

Distribution Agreement (the "Agreement") made as of September 1, 1999 between THIRD AVENUE VARIABLE SERIES TRUST, a Delaware trust (the "Trust") on behalf of the Third Avenue Value Portfolio of the Trust (the "Fund"), and M.J. WHITMAN, INC., a New York corporation (the "Distributor").

### RECITALS

-----

1. The Trust is registered under the Investment Company Act of 1940, as amended (the "Investment Company Act"), as an open-end management investment company and it is affirmatively in the interest of the Fund to offer its shares for sales continuously.

2. The Distributor is a broker-dealer registered under the Securities Exchange Act of 1934, as amended.

3. The Fund and the Distributor wish to enter into an agreement with each other with respect to the continuous offering of the Fund's Common Stock \$.001 par value (the "shares") in order to assist in the sale and distribution of shares of the Fund.

In consideration of the promises and the covenants hereinafter contained, the Fund and the Distributor hereby agree as follows:

1. APPOINTMENT OF THE DISTRIBUTOR. The Fund hereby appoints the Distributor as agent for the Fund, to assist in the sale and distribution of shares of the Fund to the public, upon the terms and conditions and during the term of this Agreement, and the Distributor hereby accepts such appointment and agrees to act hereunder.

2. NATURE OF DUTIES. The Distributor shall (i) assist in the sale and distribution of the Fund's shares and (ii) qualify and maintain the qualification as a broker-dealer in such states where shares of the Fund are registered for sale.

### 3. SALE OF SHARES OF THE FUND.

3.1. The Distributor will have the right to sell on behalf of the Fund, as its agent, any shares needed but not more than the shares needed (except for clerical errors in transmission) to fill unconditional orders for shares of the Fund placed with the Distributor by investors. The Distributor agrees that the Fund shall receive 100% of the net asset value, determined as set forth in the Prospectus, for all shares sold by the Distributor. The Fund acknowledges that the Distributor will enter into sales or servicing agreements with registered securities brokers and banks and into servicing agreements with financial institutions and other industry professionals, such as investment

advisers, accountants and estate planning firms. In entering into such agreements, the Distributor shall act only on its own behalf as principal underwriter and distributor. The Distributor shall not be responsible for making any distribution plan or service fee payments pursuant to any plans the Fund may adopt or agreements it may enter into.

3.2. The shares are to be sold by or through the Distributor to investors at a price per share ("offering price") equal to the sum of the net asset value per share determined as set forth in the Prospectus.

3.3. The Fund shall have the right to suspend the sale of shares at times when redemption is suspended pursuant to the conditions set forth in subsection 4.2. The Fund shall also have the right to suspend the sale of shares if a banking moratorium shall have been declared by federal or New York authorities, if there shall have been some other event, that, in the judgment of the Trustees of the Fund makes it impracticable or inadvisable to sell shares, or if in the judgment of the Trustees, the suspension of the sale of shares is in the best interests of the Fund or at any time when required by the provisions of any statute, order, rule or regulation of any governmental body having jurisdiction.

3.4. The Fund, or any agent of the Fund designated in writing by the Fund, shall be promptly advised of all purchase orders for shares received by the Distributor. Any order may be rejected by the Fund for any reason whatsoever. The Fund (or its agent) will confirm orders upon their receipt, will make appropriate book entries and upon receipt by the Fund (or its agent) of payment therefore, will deliver deposit receipts or certificates for such shares pursuant to the instructions of the Distributor. Payment shall be made to the Fund in New York Clearing House funds, or by federal funds wire, cashiers check or certified check. The Distributor agrees to cause such payment and such instructions to be delivered promptly to the Fund (or its agent).

#### 4. REPURCHASE OR REDEMPTION OF SHARES OF THE FUND.

4.1. Any of the outstanding shares may be tendered for redemption at any time, and the Fund agrees to repurchase or redeem the shares so tendered in accordance with its obligations set forth in Article IX of the Trust Instrument of the Trust, as amended from time to time, and the applicable provision set forth in the Prospectus.

4.2. Redemption of shares or payment may be suspended: 1) at times when the New York Stock Exchange is closed other than customary weekend closings and holiday closings, 2) when pursuant to rules and regulations of the Securities and Exchange Commission (the "SEC"), trading on said Exchange is restricted or an emergency exists as a result of which disposal by the Fund of securities owned by it is not reasonably practicable or it is not reasonably practicable for the Fund fairly to determine the value of its net assets, or 3) during any other period when the SEC, by order, so permits.

## 5. DUTIES OF THE FUND.

5.1. The Fund shall make available to the Distributor, at the Fund's expense, such number of copies of its Prospectus, quarterly reports and annual financial statements as the Distributor shall reasonably request.

5.2. The Fund will qualify and maintain the qualifications, at the Fund's expense, of an appropriate number of its shares for sale under the securities laws of such states as selected by the Fund.

-2-

## 6. DUTIES OF THE DISTRIBUTOR.

6.1. The Distributor shall devote reasonable time and effort to effect sales of shares of the Fund, but shall not be obligated to sell any specific number of shares. The Distributor will qualify and maintain the qualifications, at the Distributor's expense, of its registration as a broker-dealer in such states where shares of the Fund are qualified for sale.

The services of the Distributor to the Fund hereunder are not to be deemed exclusive and nothing contained herein shall prevent the Distributor from entering into like arrangements with other investment companies so long as the performance of its obligations hereunder is not impaired thereby. The Distributor will undertake and discharge its obligations hereunder as an independent contractor and it shall have no authority or power to obligate or bind the Fund by its actions, conduct or contracts except that it is authorized to accept orders for the purchase or repurchase of shares as the Fund's agent and subject to its approval.

6.2. In selling the shares of the Fund, the Distributor shall use all reasonable efforts to conform in all respects with the requirements of all federal and state laws relating to the sale of such securities. Neither the Distributor nor any other person is authorized by the Fund to give any information or to make any representations other than those contained in the Registration Statement or related Prospectus or in any sales literature specifically approved in writing by the Fund.

6.3. The Distributor shall adopt and follow procedures, as approved by the officers of the Fund, for the confirmation of sales to investors, the collection of amounts payable by investors on such sales, and the cancellation of unsettled transactions, as may be necessary to comply with the requirements of the National Association of Securities Dealers, Inc. (the "NASD"), as such requirements may from time to time exist.

6.4. The Distributor warrants and represents that it is, and agrees to use all commercially reasonable efforts to remain at all times, a

member in good standing of the NASD with authority to act as the Distributor.

6.5. The Distributor shall furnish to the Fund any pertinent information required to be inserted with respect to the Distributor as exclusive sales agent and distributor within the purview of Federal and state securities laws in any reports or registrations required to be filed with any government authority.

7. ALLOCATION OF EXPENSES.

7.1. The Distributor shall bear all expenses incurred by it in connection with its duties and activities under this Agreement, including the costs and expenses of qualifying and maintaining the qualifications of its registration as a broker-dealer in such states where shares of the Fund are qualified for sale, preparing, printing and distributing any sales literature, advertising and other materials which it creates for its use as Distributor.

-3-

7.2. Except as provided in subsection 7.1 hereof, nothing contained in this Agreement shall be deemed or construed to impose upon the Distributor any obligation to incur, pay, or reimburse the Fund for any other costs and expenses.

7.3. The Fund shall bear the following costs and expenses related to the continuous offering of its shares, including fees and disbursements of its counsel and auditors, in connection with the preparation and filing of any required registration statements and Prospectuses under the Investment Company Act, the Securities Act, and all amendments and supplements thereto, and preparing and mailing annual and interim reports and proxy materials to shareholders (including but not limited to the expense of setting in type any such registration statements, Prospectuses, annual or interim reports or proxy materials).

7.4. Except as provided in subsection 7.3 hereof, nothing contained in this Agreement shall be deemed or construed to impose upon the Fund any obligation to incur, pay, or reimburse the Distributor for any other costs and expenses.

8. INDEMNIFICATION.

8.1. The Fund agrees to indemnify, defend and hold harmless the Distributor, its officers, directors, employees, agents, and any person who controls the Distributor, if any, within the meaning of Section 15 of the Securities Act (each, an "Indemnified Distributor Party" and collectively, the "Indemnified Distributor Parties"), from and against any and all claims, demands, actions, liabilities, losses, costs and expenses (including the cost of investigating or defending same, and any reasonable attorneys' fees and expenses

incurred in connection therewith) (collectively, "Liabilities") which the Indemnified Distributor Parties may incur which arise out of or are based upon (a) any untrue statement of a material fact contained in the Registration Statement, Prospectus or annual or interim report or (b) any omission to state a material fact required to be stated in any thereof or necessary to make the statements in any thereof not misleading, except insofar as such Liabilities arise out of or are based upon any such untrue statement or omission or untrue statement or omission made in reliance upon and in conformity with information furnished to the Fund in writing in connection therewith by or on behalf of the Distributor; provided, however, that (i) no Indemnified Distributor Party shall be indemnified hereunder against any liability to the Fund or the shareholders of the Fund or any expense of such Indemnified Distributor Party with respect to any matter as to which such Indemnified Distributor Party shall have been adjudicated not to have acted in good faith in the reasonable belief that its action was in the best interest of the Fund or arising by reason of such Indemnified Distributor Party's willful misfeasance, bad faith, or gross negligence in the performance of its or his duties, or by reason of its or his reckless disregard of its or his obligations under this Agreement (collectively, "disabling conduct"), or (ii) as to any matter disposed of by settlement or a compromise payment by such Indemnified Distributor Party, no indemnification shall be provided unless there has been a determination that such settlement or compromise is in the best interests of the Fund and that such Indemnified Distributor Party appears to have acted in good faith in the reasonable belief that its action was in the best interest of the Fund and did not involve disabling conduct by such Indemnified Distributor Party. Notwithstanding the foregoing, (i) the Fund shall not be obligated to provide any such indemnification to the extent such provision would waive any right which the Fund cannot lawfully waive and (ii)

-4-

the Fund shall not be liable for any obligation, liability or expense of any other series of shares of the Trust. The Fund's indemnification obligation as aforesaid is expressly conditioned upon the Fund's being promptly notified, by letter or telegram addressed to the Fund at its principal business office, of any Liability of or against any Indemnified Distributor Person. The Fund agrees promptly to notify the Distributor of the commencement of any litigation or proceeding against the Fund or any Indemnified Fund Parties (as defined below) in connection with the issue and sale of any Fund shares.

8.2. The Distributor agrees to indemnify, defend and hold harmless the Fund, its officers, directors, employees, agents and any person who controls the Fund, if any, within the meaning of Section 15 of the Securities Act (each, an "Indemnified Fund Party" and collectively, the "Indemnified Fund Parties"), from and against any and all Liabilities which the Indemnified Fund Parties may incur which arise out of or are based upon (a) any untrue statement of a material fact contained in information furnished to the Fund in writing by

or on behalf of the Distributor for use in the Registration Statement or Prospectus or any omission to state a material fact in connection with such information required to be stated in the Registration Statement, Prospectus or annual or interim report or necessary to make such information not misleading; or (b) any acts or omissions by the Indemnified Distributor Parties in connection with the performance of the Distributor's obligations hereunder. The Distributor's indemnification agreement as aforesaid is expressly conditioned upon the Distributor's being promptly notified, by letter or telegram addressed to the Distributor at its principal business office, of any Liability of or against any Indemnified Distributor Party.

8.3. The Fund shall make advance payments in connection with the expenses of defending any action with respect to which indemnification might be sought hereunder if the Fund receives a written affirmation of the Indemnified Distributor Party's good faith belief that the standard of conduct necessary for indemnification has been met and a written undertaking to reimburse the fund unless it is subsequently determined that he is entitled to such indemnification and if the trustees of the Trust determine that the facts then known to them would not preclude indemnification. In addition, at least one of the following conditions must be met: (A) the Indemnified Distributor Party shall provide a security for his undertaking, (B) the fund shall be insured against losses arising by reason of any lawful advances, or (C) a majority of a quorum of trustees of the Trust who are neither "interested persons" of the Fund (as defined in Section 2(a)(19) of the Act) nor parties to the proceeding ("Disinterested Non-Party Trustees") or an independent legal counsel in a written opinion, shall determine, based on a review of readily available facts (as opposed to a full trial-type inquiry), that there is reason to believe that the Indemnified Distributor Party ultimately will be found entitled to indemnification.

8.4. All determinations with respect to indemnification hereunder shall be made (1) by a final decision on the merits by a court or other body before whom the proceeding was brought that such indemnitee is not liable by reason of disabling conduct or, (2) in the absence of such a decision, by (i) a majority vote of a quorum of the Disinterested Non-Party Trustees of the Trust, or (ii) if such a quorum is not obtainable or even, if obtainable, if a majority vote of such quorum so directs, independent legal counsel in a written opinion.

-5-

## 9. DURATION AND TERMINATION OF THE AGREEMENT.

9.1. This Agreement shall become effective as of the date first written above and shall remain in force for up to two years from such date and thereafter from year to year, but only so long as such continuance is specifically approved at least annually by (i) the Fund's Board of Trustees or by the vote of a majority of the outstanding voting securities of the Fund, and

(ii) by the vote of a majority of those trustees who are not parties to this Agreement or interested persons of any such party, cast in person at a meeting or meetings called for the purpose of voting on such approval.

9.2. This Agreement may be terminated at any time, without the payment of any penalty, by the Fund's Board of Trustees or by vote of a majority of the outstanding voting securities of the Fund, or by the Distributor, on sixty days written notice to the other party. This Agreement shall automatically terminate in the event of its assignment.

10. DEFINITION OF CERTAIN TERMS. The terms "vote of a majority of the outstanding voting securities," "assignment," "affiliated person," and "interested person," when used in this Agreement, shall have the respective meanings specified in the Investment Company Act and the rules and regulations of the Commission thereunder.

11. AMENDMENTS OF THIS AGREEMENT. This Agreement may be amended by the parties only if such amendment is specifically approved by (i) the Fund's Board of Trustees or by the vote of a majority of outstanding voting securities of the Fund and (ii) by the vote of a majority of those trustees of the Fund who are not interested persons of either party to this Agreement, cast in person at a meeting or meetings called for the purpose of voting on such approval.

12. GOVERNING LAW. The provisions of this Agreement shall be construed and interpreted in accordance with the laws of the State of New York, and the applicable provisions of the Investment Company Act. To the extent that the applicable laws of the State of New York, or any of the provisions herein, conflict with the applicable provisions of the Investment Company Act or the rules and regulations thereunder, the latter shall control.

-6-

The parties hereto have executed this Agreement as of the day and year first above written.

THIRD AVENUE VARIABLE SERIES TRUST, for the  
Third Avenue Value Portfolio

By:

-----

Name: Martin J. Whitman

Title: Chairman

M. J. WHITMAN, INC

By:

-----  
Name: David Barse  
Title: President

-7-

## CUSTODY AGREEMENT

AGREEMENT, dated as of August 30, 1999 by and between THIRD AVENUE VARIABLE SERIES TRUST (the "Trust" ), a business trust organized and existing under the laws of the State of Delaware, acting with respect to and on behalf of each of the series of the Trust that are identified on Exhibit A hereto (each, a "Portfolio"), and CUSTODIAL TRUST COMPANY, a bank organized and existing under the laws of the State of New Jersey (the "Custodian").

WHEREAS, the Trust desires that the securities, funds and other assets of the Portfolios be held and administered by Custodian pursuant to this Agreement;

WHEREAS, each Portfolio is an investment portfolio represented by a series of Shares included among the shares of beneficial interest issued by the Trust, an open-end management investment company registered under the 1940 Act;

WHEREAS, Custodian represents that it is a bank having the qualifications prescribed in the 1940 Act to act as custodian for management investment companies registered under the 1940 Act;

NOW, THEREFORE, in consideration of the mutual agreements herein made, the Trust and Custodian hereby agree as follows:

### ARTICLE I

#### DEFINITIONS

-----

Whenever used in this Agreement, the following terms, unless the context otherwise requires, shall mean:

1.1 "AUTHORIZED PERSON" means any person authorized by resolution of the Board of Trustees to give Oral Instructions and Written Instructions on behalf of the Trust and identified, by

name or by office, in Exhibit B hereto or any person designated to do so by an investment adviser of any Portfolio who is named by the Trust in Exhibit C hereto.

1.2 "BOARD OF TRUSTEES" means the Board of Trustees of the Trust or, when permitted under the 1940 Act, the Executive Committee thereof, if any.

1.3 "BOOK-ENTRY SYSTEM" means a book-entry system maintained by a Federal Reserve Bank for securities of the United States government or of agencies or instrumentalities thereof (including government-sponsored enterprises).

1.4 "BUSINESS DAY" means any day on which banks in the States of New Jersey and New York are open for business.

1.5 "CUSTODY ACCOUNT" means, with respect to a Portfolio, the account in the name of such Portfolio, which is provided for in Section 3.2 below.

1.6 "DOMESTIC SECURITIES DEPOSITORY" means The Depository Trust Company and any other clearing agency registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934, which acts as a securities depository.

1.7 "ELIGIBLE DOMESTIC BANK" means a bank as defined in the 1940 Act.

1.8 "ELIGIBLE FOREIGN CUSTODIAN" means any banking institution, trust company or other entity (including any Foreign Securities Depository) organized under the laws of a country other than the United States which is eligible under the 1940 Act to act as a custodian for securities and other assets of a Portfolio held outside the United States.

1.9 "FOREIGN CUSTODY MANAGER" has the same meaning as in the 1940 Act.

-2-

1.10 "FOREIGN SECURITIES DEPOSITORY" means a foreign securities depository or clearing agency as defined in the 1940 Act.

1.11 "MASTER REPURCHASE AGREEMENT" means the Master Repurchase Agreement of even date herewith between the Trust and Bear, Stearns & Co. Inc. as it may from time to time be amended.

1.12 "MASTER SECURITIES LOAN AGREEMENT" means the Master Securities Loan Agreement of even date herewith between the Trust and Bear, Stearns Securities Corp. as it may from time to time be amended.

1.13 "1940 ACT" means the Investment Company Act of 1940, as amended, and the rules and regulations thereunder.

1.14 "ORAL INSTRUCTIONS" means instructions orally transmitted to and accepted by Custodian which are (a) reasonably believed by Custodian to have been given by an Authorized Person, (b) recorded and kept among the records of Custodian made in the ordinary course of business, and (c) completed in accordance with Custodian's requirements from time to time as to content of instructions and their manner and timeliness of delivery by the Trust.

1.15 "PROPER INSTRUCTIONS" means Oral Instructions or Written Instructions. Proper Instructions may be continuing Written Instructions when deemed appropriate by the Trust and Custodian.

1.16 "SECURITIES DEPOSITORY" means any Domestic Securities Depository or Foreign Securities Depository.

1.17 "SHARES" means, with respect to a Portfolio, those shares in a series or class of beneficial interests of the Trust that represent interests in such Portfolio.

-3-

1.18 "WRITTEN INSTRUCTIONS" means written communications received by Custodian that are (a) reasonably believed by Custodian to have been signed or sent by an Authorized Person, (b) sent or transmitted by letter, facsimile, central processing unit connection, on-line terminal or magnetic tape, and (c) completed in accordance with Custodian's requirements from time to time as to content of instructions and their manner and timeliness of delivery by the Trust.

ARTICLE II  
APPOINTMENT OF CUSTODIAN

-----

2.1 APPOINTMENT. The Trust hereby appoints Custodian as custodian of all such securities, funds and other assets of each Portfolio as may be reasonably acceptable to Custodian and from time to time delivered to it by the Trust or others for the account of such Portfolio.

2.2 ACCEPTANCE. Custodian hereby accepts appointment as such custodian and agrees to perform the duties thereof as hereinafter set forth.

ARTICLE III  
CUSTODY OF SECURITIES, FUNDS AND OTHER ASSETS

-----

3.1 SEGREGATION. All securities and non-cash property of a Portfolio in the possession of Custodian (other than securities maintained by Custodian with a sub-custodian appointed pursuant to this Agreement or in a Securities Depository or Book-Entry System) shall be physically segregated from other such securities and non-cash property in the possession of Custodian. All cash, securities and other non-cash property of a Portfolio shall be identified as belonging to such Portfolio.

3.2 CUSTODY ACCOUNT. (a) Custodian shall open and maintain in its trust department a custody account in the name of each Portfolio, subject only to draft or order of Custodian, in which Custodian shall enter and carry all securities, funds and other assets of such Portfolio which are delivered to Custodian and accepted by it.

(b) If, with respect to any Portfolio, Custodian at any time fails to receive any of the documents referred to in Section 3.10(a) below, then, until such time as it receives such document, it shall not be obligated to receive any securities into the Custody Account of such Portfolio and shall be entitled to return to such Portfolio any securities that it is holding in such Custody Account.

3.3 SECURITIES IN PHYSICAL FORM. Custodian may hold securities that may be held only in physical form.

3.4 DISCLOSURE TO ISSUERS OF SECURITIES. Custodian is authorized to disclose the Trust's and any Portfolio's names and addresses, and the securities positions in such Portfolio's Custody Account, to the issuers of such securities when requested by them to do so.

3.5 EMPLOYMENT OF DOMESTIC SUB-CUSTODIANS. At any time and from time to time, Custodian in its discretion may appoint and employ, and may also cease to employ, any Eligible Domestic Bank as sub-custodian to hold securities and other assets of a Portfolio that are maintained in the United States and to carry out such other provisions of this Agreement as it may determine, provided, however, that the employment of any such sub-custodian has been approved by the Trust. The employment of any such sub-custodian shall be at Custodian's expense and shall not relieve Custodian of any of its obligations or liabilities under this Agreement.

3.6 EMPLOYMENT OF FOREIGN SUB-CUSTODIANS. (a) At any time and from time to time, Custodian in its discretion may appoint and employ in accordance with the 1940 Act, and may also cease to employ, (i) any overseas branch of any Eligible Domestic Bank, or (ii) any Eligible Foreign Custodian selected by the Foreign Custody Manager, in each case as a foreign sub-custodian for securities and other assets of a Portfolio that are maintained outside the United States, provided, however, that the employment of any such overseas branch has been approved by the Trust and, provided further that, in the case of any such Eligible Foreign Custodian, the Foreign Custody Manager has approved, in writing, the agreement (and/or, in the case of a Foreign Securities Depository, the rules and/or established practices and procedures thereof) pursuant to which Custodian employs such Eligible Foreign Custodian.

(b) Set forth on Exhibit D hereto are the foreign sub-custodians (including Foreign Securities Depositories) that Custodian, subject to Section 3.6(a) above, may appoint and the countries in which, subject to Section 3.6(a) above, such foreign sub-custodians may hold Portfolio securities and other Portfolio assets. Custodian may from time to time, at its discretion, add or delete foreign sub-custodians and countries to and from Exhibit D, and Exhibit D

shall be revised accordingly.

(c) If the Trust proposes to have a Portfolio make an investment which is to be held outside the United States, then the Trust shall inform Custodian sufficiently in advance of such investment to allow the Trust and the Foreign Custody Manager to consider and give the approvals required under Section 3.6(a) above and for Custodian to put appropriate arrangements in place with a foreign sub-custodian.

(d) Notwithstanding anything to the contrary in Section 8.1 below, Custodian shall have no greater liability to any Portfolio or the Trust for the actions or omissions of any foreign sub-custodian appointed pursuant to this Agreement than any such foreign sub-custodian has to Custodian.

(e) Upon the request of the Foreign Custody Manager, Custodian shall furnish to the Foreign Custody Manager information concerning all foreign sub-custodians employed pursuant to this Agreement which shall be similar in kind and scope to any such information that may have been furnished to the Foreign Custody Manager in connection with the initial approval by the Foreign Custody Manager of the agreements pursuant to which Custodian employs such foreign sub-custodians or as otherwise required by the 1940 Act.

3.7 EMPLOYMENT OF OTHER AGENTS. Custodian may employ other suitable agents, which may include affiliates of Custodian such as Bear, Stearns & Co. Inc. ("Bear Stearns") or Bear, Stearns Securities Corp. ("BS Securities"), both of which are securities broker-dealers, provided, however, that Custodian shall not employ (a) BS Securities to hold any collateral pledged by BS Securities under the Master Securities Loan Agreement or any other securities loan agreement between the Trust and BS Securities, whether now or hereafter in effect, or (b) Bear Stearns to hold any securities

-6-

purchased from Bear Stearns under the Master Repurchase Agreement or any other repurchase agreement between the Trust and Bear Stearns, whether now or hereafter in effect. The appointment of any agent pursuant to this Section 3.7 shall not relieve Custodian of any of its obligations or liabilities under this Agreement.

3.8 BANK ACCOUNTS. In its discretion and from time to time, Custodian may open and maintain one or more demand deposit accounts with any Eligible Domestic Bank (any such accounts to be in the name of Custodian and subject only to its draft or order), provided, however, that the opening and maintenance of any such account shall be at Custodian's expense and shall not relieve Custodian of any of its obligations or liabilities under this Agreement.

3.9 DELIVERY OF ASSETS TO CUSTODIAN. Provided they are acceptable to Custodian, the Trust shall deliver to Custodian the securities, funds and other assets of each Portfolio, including (a) payments of income, payments of

principal and capital distributions received by such Portfolio with respect to securities, funds or other assets owned by such Portfolio at any time during the term of this Agreement, and (b) funds received by such Portfolio for the issuance, at any time during such term, of Shares of such Portfolio. Custodian shall not be under any duty or obligation to require the Trust to deliver to it any securities or other assets owned by a Portfolio and shall have no responsibility or liability for or on account of securities or other assets not so delivered.

3.10 DOMESTIC SECURITIES DEPOSITORIES AND BOOK-ENTRY SYSTEMS. Custodian and any sub-custodian appointed pursuant to Section 3.5 above may deposit and/or maintain securities of any Portfolio in a Domestic Securities Depository or in a Book-Entry System, subject to the following provisions:

(a) Prior to a deposit of securities of a Portfolio in any Domestic Securities Depository or Book-Entry System, the Trust shall deliver to Custodian a resolution of the Board of Trustees, certified by an officer of the Trust, authorizing and instructing Custodian (and any sub-custodian appointed pursuant to Section 3.5 above) on an on-going basis to deposit in such Domestic Securities Depository or Book-Entry System all securities eligible for deposit therein and to make use of such

-7-

Domestic Securities Depository or Book-Entry System to the extent possible and practical in connection with the performance of its obligations hereunder (or under the applicable sub-custody agreement in the case of such sub-custodian), including, without limitation, in connection with settlements of purchases and sales of securities, loans of securities, and deliveries and returns of collateral consisting of securities.

(b) Securities of a Portfolio kept in a Book-Entry System or Domestic Securities Depository shall be kept in an account ("Depository Account") of Custodian (or of any sub-custodian appointed pursuant to Section 3.5 above) in such Book-Entry System or Domestic Securities Depository which includes only assets held by Custodian (or such sub-custodian) as a fiduciary, custodian or otherwise for customers.

(c) The records of Custodian with respect to securities of a Portfolio that are maintained in a Book-Entry System or Domestic Securities Depository shall at all times identify such securities as belonging to such Portfolio.

(d) If securities purchased by a Portfolio are to be held in a Book-Entry System or Domestic Securities Depository, Custodian (or any sub-custodian appointed pursuant to Section 3.5 above) shall pay for such securities upon (i) receipt of advice from the Book-Entry System or Domestic Securities Depository that such securities have been transferred to the Depository Account, and (ii) the making of an entry on the records of Custodian

(or of such sub-custodian) to reflect such payment and transfer for the account of such Portfolio. If securities sold by a Portfolio are held in a Book-Entry System or Domestic Securities Depository, Custodian (or such sub-custodian) shall transfer such securities upon (A) receipt of advice from the Book-Entry System or Domestic Securities Depository that payment for such securities has been transferred to the Depository Account, and (B) the making of an entry on the records of Custodian (or of such sub-custodian) to reflect such transfer and payment for the account of such Portfolio.

(e) Custodian shall provide the Trust with copies of any report obtained by Custodian (or by any sub-custodian appointed pursuant to Section 3.5 above) from a Book-Entry System or Domestic

-8-

Securities Depository in which securities of a Portfolio are kept on the internal accounting controls and procedures for safeguarding securities deposited in such Book-Entry System or Domestic Securities Depository.

(f) At its election, the Trust shall be subrogated to the rights of Custodian (or of any sub-custodian appointed pursuant to Section 3.5 above) with respect to any claim against a Book-Entry System or Domestic Securities Depository or any other person for any loss or damage to a Portfolio arising from the use of such Book-Entry System or Domestic Securities Depository, if and to the extent that such Portfolio has not been made whole for any such loss or damage.

3.11 RELATIONSHIP WITH SECURITIES DEPOSITORIES. No Book-Entry System, Securities Depository, or other securities depository or clearing agency (whether foreign or domestic) which it is or may become standard market practice to use for the comparison and settlement of trades in securities shall be an agent or sub-contractor of Custodian for purposes of Section 3.7 above or otherwise.

3.12 PAYMENTS FROM CUSTODY ACCOUNT. Upon receipt of Proper Instructions with respect to a Portfolio but subject to its right to foreclose upon and liquidate collateral pledged to it pursuant to Section 9.4 below, Custodian shall make payments from the Custody Account of such Portfolio, but only in the following cases, provided, first, that such payments are in connection with the clearance and/or custody of securities or other assets, second, that there are sufficient funds in such Custody Account, whether belonging to such Portfolio or advanced to it by Custodian in its sole and absolute discretion as set forth in Section 3.18 below, for Custodian to make such payments, and, third, that after the making of such payments, such Portfolio would not be in violation of any margin or other requirements agreed upon pursuant to Section 3.18 below:

(a) For the purchase of securities for such Portfolio but only (i) in the case of securities (other than options on securities, futures contracts and options on futures contracts), against the delivery to Custodian (or any

sub-custodian appointed pursuant to this Agreement) of such securities registered as provided in Section 3.20 below or in proper form for transfer or, if the purchase of such

-9-

securities is effected through a Book-Entry System or Domestic Securities Depository, in accordance with the conditions set forth in Section 3.10 above, and (ii) in the case of options, futures contracts and options on futures contracts, against delivery to Custodian (or such sub-custodian) of evidence of title thereto in favor of such Portfolio, the Custodian, any such sub-custodian, or any nominee referred to in Section 3.20 below;

(b) In connection with the conversion, exchange or surrender, as set forth in Section 3.13(f) below, of securities owned by such Portfolio;

(c) For transfer in accordance with the provisions of any agreement among the Trust, Custodian and a securities broker-dealer, relating to compliance with rules of The Options Clearing Corporation and of any registered national securities exchange (or of any similar organization or organizations) regarding escrow or other arrangements in connection with transactions of such Portfolio;

(d) For transfer in accordance with the provisions of any agreement among the Trust, Custodian and a futures commission merchant, relating to compliance with the rules of the Commodity Futures Trading Commission and/or any contract market (or any similar organization or organizations) regarding margin or other deposits in connection with transactions of such Portfolio;

(e) For the funding of any time deposit (whether certificated or not) or other interest-bearing account with any banking institution (including Custodian), provided that Custodian shall receive and retain such certificate, advice, receipt or other evidence of deposit (if any) as such banking institution may deliver with respect to any such deposit or account;

(f) For the purchase from a banking or other financial institution of loan participations, but only if Custodian has in its possession a copy of the agreement between the Trust and such banking or other financial institution with respect to the purchase of such loan participations and provided that Custodian shall receive and retain such participation certificate or other evidence of participation

-10-

(if any) as such banking or other financial institution may deliver with respect to any such loan participation;

(g) For the purchase and/or sale of foreign currencies or of options to purchase and/or sell foreign currencies, for spot or future delivery, for the account of such Portfolio pursuant to contracts between the Trust and any banking or other financial institution (including Custodian, any sub-custodian

appointed pursuant to this Agreement and any affiliate of Custodian);

(h) For transfer to a securities broker-dealer as margin for a short sale of securities for such Portfolio, or as payment in lieu of dividends paid on securities sold short for such Portfolio;

(i) For the payment as provided in Article IV below of any dividends, capital gain distributions or other distributions declared on the Shares of such Portfolio;

(j) For the payment as provided in Article IV below of the redemption price of the Shares of such Portfolio;

(k) For the payment of any expense or liability incurred by such Portfolio, including but not limited to the following payments for the account of such Portfolio: interest, taxes, and administration, investment advisory, accounting, auditing, transfer agent, custodian, trustee and legal fees, and other operating expenses of such Portfolio; in all cases, whether or not such expenses are to be in whole or in part capitalized or treated as deferred expenses; and

(l) For any other proper purpose, but only upon receipt of Proper Instructions, specifying the amount and purpose of such payment, certifying such purpose to be a proper purpose of such Portfolio, and naming the person or persons to whom such payment is to be made.

3.13 DELIVERIES FROM CUSTODY ACCOUNT. Upon receipt of Proper Instructions with respect to a Portfolio but subject to its right to foreclose upon and liquidate collateral pledged to it pursuant to Section 9.4 below, Custodian shall release and deliver securities and other assets from the Custody

-11-

Account of such Portfolio, but only in the following cases, provided, first, that such deliveries are in connection with the clearance and/or custody of securities or other assets, second, there are sufficient amounts and types of securities or other assets in such Custody Account for Custodian to

make such deliveries, and, third, that after the making of such deliveries, such Portfolio would not be in violation of any margin or other requirements agreed upon pursuant to Section 3.18 below:

(a) Upon the sale of securities for the account of such Portfolio but, subject to Section 3.14 below, only against receipt of payment therefor or, if such sale is effected through a Book-Entry System or Domestic Securities Depository, in accordance with the provisions of Section 3.10 above;

(b) To an offeror's depository agent in connection with tender or other similar offers for securities of such Portfolio; provided that, in any such case, the funds or other consideration for such securities is to be delivered to

Custodian;

(c) To the issuer thereof or its agent when such securities are called, redeemed or otherwise become payable, provided that in any such case the funds or other consideration for such securities is to be delivered to Custodian;

(d) To the issuer thereof or its agent for exchange for a different number of certificates or other evidence representing the same aggregate face amount or number of units; provided that, in any such case, the new securities are to be delivered to Custodian;

(e) To the securities broker (or its clearing agent) through whom securities are being sold for such Portfolio, for examination in accordance with the "street delivery" custom;

(f) For exchange or conversion pursuant to any plan of merger, consolidation, recapitalization, reorganization or readjustment of the issuer of such securities, or pursuant to provisions for conversion contained in such securities, or pursuant to any deposit agreement, including surrender or receipt of underlying securities in connection with the issuance or cancellation

-12-

of depository receipts; provided that, in any such case, the new securities and funds, if any, are to be delivered to Custodian;

(g) In the case of warrants, rights or similar securities, to the issuer of such warrants, rights or similar securities, or its agent, upon the exercise thereof, provided that, in any such case, the new securities and funds, if any, are to be delivered to Custodian;

(h) To the borrower thereof, or its agent, in connection with any loans of securities for such Portfolio pursuant to any securities loan agreement entered into by the Trust, but only against receipt by Custodian of such collateral as is required under such securities loan agreement;

(i) To any lender, or its agent, as collateral for any borrowings from such lender by such Portfolio that require a pledge of assets of such Portfolio, but only against receipt by Custodian of the amounts borrowed;

(j) Pursuant to any authorized plan of liquidation, reorganization, merger, consolidation or recapitalization of such Portfolio or the Trust;

(k) For delivery in accordance with the provisions of any agreement among the Trust, Custodian and a securities broker-dealer, relating to compliance with the rules of The Options Clearing Corporation and of any registered national securities exchange (or of any similar organization or organizations) regarding escrow or other arrangements in connection with transactions of such Portfolio;

(l) For delivery in accordance with the provisions of any agreement among the Trust, Custodian, and a futures commission merchant, relating to compliance with the rules of the Commodity Futures Trading Commission and/or any contract market (or any similar organization or organizations) regarding margin or other deposits in connection with transactions of such Portfolio;

-13-

(m) For delivery to a securities broker-dealer as margin for a short sale of securities for such Portfolio;

(n) To the issuer of American Depositary Receipts or International Depositary Receipts (hereinafter, collectively, "ADRs") for such securities, or its agent, against a written receipt therefor adequately describing such securities, provided that such securities are delivered together with instructions to issue ADRs in the name of Custodian or its nominee and to deliver such ADRs to Custodian;

(o) In the case of ADRs, to the issuer thereof, or its agent, against a written receipt therefor adequately describing such ADRs, provided that such ADRs are delivered together with instructions to deliver the securities underlying such ADRs to Custodian or an agent of Custodian; or

(p) For any other proper purpose, but only upon receipt of Proper Instructions, specifying the securities or other assets to be delivered, setting forth the purpose for which such delivery is to be made, certifying such purpose to be a proper purpose of such Portfolio, and naming the person or persons to whom delivery of such securities or other assets is to be made.

3.14 DELIVERY PRIOR TO FINAL PAYMENT. When instructed by the Trust to deliver securities of a Portfolio against payment, Custodian shall be entitled, but only if in accordance with generally accepted market practice, to deliver such securities prior to actual receipt of final payment therefor and, exclusively in the case of securities in physical form, prior to receipt of payment therefor. In any such case, such Portfolio shall bear the risk that final payment for such securities may not be made or that such securities may be returned or otherwise held or disposed of by or through the person to whom they were delivered, and Custodian shall have no liability for any of the foregoing.

3.15 CREDIT PRIOR TO FINAL PAYMENT. In its sole discretion and from time to time, Custodian may credit the Custody Account of a Portfolio, prior to actual receipt of final payment thereof, with (a) proceeds from the sale of securities of such Portfolio which it has been instructed to deliver against payment, (b) proceeds from the redemption of securities or other assets in such Custody

-14-

Account, and (c) income from securities, funds or other assets in such Custody Account. Any such credit shall be conditional upon actual receipt by Custodian of final payment and may be reversed if final payment is not actually received in full. Custodian may, in its sole discretion and from time to time, permit a Portfolio to use funds so credited to its Custody Account in anticipation of actual receipt of final payment. Any funds so used shall constitute an advance subject to Section 3.18 below.

3.16 DEFINITION OF FINAL PAYMENT. For purposes of this Agreement, "final payment" means payment in funds which are (or have become) immediately available, under applicable law are irreversible, and are not subject to any security interest, levy, lien or other encumbrance.

3.17 PAYMENTS AND DELIVERIES OUTSIDE THE UNITED STATES. Notwithstanding anything to the contrary that may be required by Section 3.12 or Section 3.13 above, or elsewhere in this Agreement, in the case of securities and other assets maintained outside the United States and in the case of payments made outside the United States, Custodian and any sub-custodian appointed pursuant to this Agreement may receive and deliver such securities or other assets, and may make such payments, in accordance with the laws, regulations, customs, procedures and practices applicable in the relevant local market outside the United States.

3.18 CLEARING CREDIT. Custodian may, in its sole discretion and from time to time, advance funds to the Trust to facilitate the settlement of a Portfolio's transactions in the Custody Account of such Portfolio. Any such advance (a) shall be repayable immediately upon demand made by Custodian, (b) shall be fully secured as provided in Section 9.3 below, and (c) shall bear interest at such rate, and be subject to such other terms and conditions, as Custodian and the Trust may agree.

3.19 ACTIONS NOT REQUIRING PROPER INSTRUCTIONS. Unless otherwise instructed by the Trust, Custodian shall with respect to all securities and other assets held for a Portfolio:

-15-

(a) Subject to Section 8.4 below, receive into the Custody Account of such Portfolio any funds or other property, including payments of principal, interest and dividends, due and payable on or on account of such securities and other assets;

(b) Deliver securities of such Portfolio to the issuers of such securities or their agents for the transfer thereof into the name of such Portfolio, Custodian or any of the nominees referred to in Section 3.20 below;

(c) Endorse for collection, in the name of such Portfolio, checks, drafts and other negotiable instruments;

(d) Surrender interim receipts or securities in temporary form for securities in definitive form;

(e) Execute, as custodian, any necessary declarations or certificates of ownership under the federal income tax laws of the United States, or the laws or regulations of any other taxing authority, in connection with the transfer of such securities or other assets or the receipt of income or other payments with respect thereto;

(f) Receive and hold for such Portfolio all rights and similar securities issued with respect to securities or other assets of such Portfolio;

(g) As may be required in the execution of Proper Instructions, transfer funds from the Custody Account of such Portfolio to any demand deposit account maintained by Custodian pursuant to Section 3.8 above; and

(h) In general, attend to all non-discretionary details in connection with the sale, exchange, substitution, purchase and transfer of, and other dealings in, such securities and other assets.

3.20 REGISTRATION AND TRANSFER OF SECURITIES. All securities held for a Portfolio that are issuable only in bearer form shall be held by Custodian in that form, provided that any such

-16-

securities shall be held in a Securities Depository or Book-Entry System if eligible therefor. All other securities and all other assets held for a Portfolio may be registered in the name of (a) Custodian as agent, (b) any sub-custodian appointed pursuant to this Agreement, (c) any Securities Depository, or (d) any nominee or agent of any of them. The Trust shall furnish to Custodian appropriate instruments to enable Custodian to hold or deliver in proper form for transfer, or to register as in this Section 3.20 provided, any securities or other assets delivered to Custodian which are registered in the name of a Portfolio.

3.21 RECORDS. (a) Custodian shall maintain complete and accurate records with respect to securities, funds and other assets held for a Portfolio, including (i) journals or other records of original entry containing an itemized daily record in detail of all receipts and deliveries of securities and all receipts and disbursements of funds; (ii) ledgers (or other records) reflecting (A) securities in transfer, if any, (B) securities in physical possession, (C) monies and securities borrowed and monies and securities loaned (together with a record of the collateral therefor and substitutions of such collateral), (D) dividends and interest received, and (E) dividends receivable and interest accrued; and (iii) cancelled checks and bank records related thereto. Custodian shall keep such other books and records with respect to securities, funds and other assets of a Portfolio which are held hereunder as the Trust may reasonably request.

(b) All such books and records maintained by Custodian for a Portfolio shall (i) be maintained in a form acceptable to the Trust and in compliance with rules and regulations of the Securities and Exchange Commission, (ii) be the property of such Portfolio and at all times during the regular business hours of Custodian be made available upon request for inspection by duly authorized officers, employees or agents of the Trust and employees or agents of the Securities and Exchange Commission, and (iii) if required to be maintained under the 1940 Act, be preserved for the periods prescribed therein.

3.22 ACCOUNT REPORTS BY CUSTODIAN. Custodian shall furnish the Trust with a daily activity statement, including a summary of all transfers to or from the Custody Account of each Portfolio (in the case of securities and other assets maintained in the United States, on the day following such

-17-

transfers). At least monthly and from time to time, Custodian shall furnish the Trust with a detailed statement of the securities, funds and other assets held for each Portfolio under this Agreement.

3.23 OTHER REPORTS BY CUSTODIAN. Custodian shall provide the Trust with such reports as the Trust may reasonably request from time to time on the internal accounting controls and procedures for safeguarding securities which are employed by Custodian or any sub-custodian appointed pursuant to this Agreement.

3.24 PROXIES AND OTHER MATERIALS. (a) Unless otherwise instructed by the Trust, Custodian shall promptly deliver to the Trust all notices of meetings, proxy materials (other than proxies) and other announcements, which it receives regarding securities held by it in the Custody Account of a Portfolio. Whenever Custodian or any of its agents receives a proxy with respect to securities in the Custody Account of a Portfolio, Custodian shall promptly request instructions from the Trust on how such securities are to be voted, and shall give such proxy, or cause it to be given, in accordance with such instructions. If the Trust timely informs Custodian that the Trust wishes to vote any such securities in person, Custodian shall promptly seek to have a legal proxy covering such securities issued to the Trust. Unless otherwise instructed by the Trust, neither Custodian nor any of its agents shall exercise any voting rights with respect to securities held hereunder.

(b) Unless otherwise instructed by the Trust, Custodian shall promptly transmit to the Trust all other written information received by Custodian from issuers of securities held in the Custody Account of any Portfolio. With respect to tender or exchange offers for such securities or with respect to other corporate transactions involving such securities, Custodian shall promptly transmit to the Trust all written information received by Custodian from the issuers of such securities or from any party (or its agents) making any such tender or exchange offer or participating in such other corporate transaction. If the Trust, with respect to such tender or exchange offer or other corporate transaction, desires to take any action that may be taken by it pursuant to the

terms of such offer or other transaction, the Trust shall notify Custodian (i) in the case of securities maintained outside the United States, such number of Business Days prior to the date on which Custodian is to take such action as will allow Custodian to take such action in the relevant local market for such securities in

-18-

a timely fashion, and (ii) in the case of all other securities, at least five Business Days prior to the date on which Custodian is to take such action.

3.25 CO-OPERATION. Custodian shall cooperate with and supply necessary information to the entity or entities appointed by the Trust to keep the books of account of a Portfolio and/or to compute the value of the assets of a Portfolio.

ARTICLE IV  
REDEMPTION OF PORTFOLIO SHARES;  
-----  
DIVIDENDS AND OTHER DISTRIBUTIONS  
-----

4.1 TRANSFER OF FUNDS. From such funds as may be available for the purpose in the Custody Account of a Portfolio, and upon receipt of Proper Instructions specifying that the funds are required to redeem Shares of such Portfolio or to pay dividends or other distributions to holders of Shares of such Portfolio, Custodian shall transfer each amount specified in such Proper Instructions to such account of such Portfolio or of an agent thereof (other than Custodian), at such bank, as the Trust may designate therein with respect to such amount.

4.2 SOLE DUTY OF CUSTODIAN. Custodian's sole obligation with respect to the redemption of Shares of a Portfolio and the payment of dividends and other distributions thereon shall be its obligation set forth in Section 4.1 above, and Custodian shall not be required to make any payments to the various holders from time to time of Shares of a Portfolio nor shall Custodian be responsible for the payment or distribution by the Trust, or any agent designated in Proper Instructions given pursuant to Section 4.1 above, of any amount paid by Custodian to the account of the Trust or such agent in accordance with such Proper Instructions.

ARTICLE V  
SEGREGATED ACCOUNTS  
-----

Upon receipt of Proper Instructions to do so, Custodian shall establish and maintain a segregated account or accounts for and on behalf of any Portfolio, into which account or accounts

may be transferred funds and/or securities, including securities maintained in a Securities Depository:

(a) in accordance with the provisions of any agreement among the Trust, Custodian and a securities broker-dealer (or any futures commission merchant), relating to compliance with the rules of The Options Clearing Corporation or of any registered national securities exchange (or the Commodity Futures Trading Commission or any registered contract market), or of any similar organization or organizations, regarding escrow or other arrangements in connection with transactions of such Portfolio,

(b) for purposes of segregating funds or securities in connection with securities options purchased or written by such Portfolio or in connection with financial futures contracts (or options thereon) purchased or sold by such Portfolio,

(c) which constitute collateral for loans of securities made by such Portfolio,

(d) for purposes of compliance by such Portfolio with requirements under the 1940 Act for the maintenance of segregated accounts by registered management investment companies in connection with reverse repurchase agreements, when-issued, delayed delivery and firm commitment transactions, and short sales of securities, and

(e) for other proper purposes, but only upon receipt of Proper Instructions, specifying the purpose or purposes of such segregated account and certifying such purposes to be proper purposes of such Portfolio.

ARTICLE VI  
CERTAIN REPURCHASE TRANSACTIONS

-----

6.1 TRANSACTIONS. If and to the extent that the necessary funds and securities of a Portfolio have been entrusted to it under this Agreement, and subject to Custodian's right to foreclose upon and liquidate collateral pledged to it pursuant to Section 9.4 below, Custodian, as agent of such

Portfolio, shall from time to time (and unless the Trust gives it Proper Instructions to do otherwise) make from the Custody Account of such Portfolio the transfers of funds and deliveries of securities which such Portfolio is required to make pursuant to the Master Repurchase Agreement and shall receive for the Custody Account of such Portfolio the transfers of funds and deliveries of securities which the seller under the Master Repurchase Agreement is required to make pursuant thereto.

Custodian shall make and receive all such transfers and deliveries pursuant to, and subject to the terms and conditions of, the Master Repurchase Agreement.

6.2 COLLATERAL. Custodian shall daily mark to market the securities purchased under the Master Repurchase Agreement and held in the Custody Account of a Portfolio, and shall give to the seller thereunder any such notice as may be required thereby in connection with such mark-to-market.

6.3 EVENTS OF DEFAULT. Custodian shall promptly notify the Trust of any event of default under the Master Repurchase Agreement (as such term "event of default" is defined therein) of which it has actual knowledge.

6.4 MASTER REPURCHASE AGREEMENT. Custodian hereby acknowledges its receipt from the Trust of a copy of the Master Repurchase Agreement. The Trust shall provide Custodian, prior to the effectiveness thereof, with a copy of any amendment to the Master Repurchase Agreement.

ARTICLE VII  
CERTAIN SECURITIES LENDING TRANSACTIONS  
-----

7.1 TRANSACTIONS. If and to the extent that the necessary funds and securities of a Portfolio have been entrusted to it under this Agreement, and subject to Custodian's right to foreclose upon and liquidate collateral pledged to it pursuant to Section 9.4 below, Custodian, as agent of such Portfolio, shall from time to time (and unless the Trust gives it Proper Instructions to do otherwise) make from the Custody Account of such Portfolio the transfers of funds and deliveries of securities which such Portfolio is required to make pursuant to the Master Securities Loan Agreement and shall

-21-

receive for the Custody Account of such Portfolio the transfers of funds and deliveries of securities which the borrower under the Master Securities Loan Agreement is required to make pursuant thereto. Custodian shall make and receive all such transfers and deliveries pursuant to, and subject to the terms and conditions of, the Master Securities Loan Agreement.

7.2 COLLATERAL. Custodian shall daily mark to market, in the manner provided for in the Master Securities Loan Agreement, all loans of securities which may from time to time be outstanding thereunder.

7.3 DEFAULTS. Custodian shall promptly notify the Trust of any default under the Master Securities Loan Agreement (as such term "default" is defined therein) of which it has actual knowledge.

7.4 MASTER SECURITIES LOAN AGREEMENT. Custodian hereby acknowledges its

receipt from the Trust of a copy of the Master Securities Loan Agreement. The Trust shall provide Custodian, prior to the effectiveness thereof, with a copy of any amendment to the Master Securities Loan Agreement.

ARTICLE VIII  
CONCERNING THE CUSTODIAN  
-----

8.1 STANDARD OF CARE. Custodian shall be held to the exercise of reasonable care in carrying out its obligations under this Agreement, and shall be without liability to any Portfolio or the Trust for any loss, damage, cost, expense (including attorneys' fees and disbursements), liability or claim which does not arise from willful misfeasance, bad faith or negligence on the part of Custodian. Custodian shall be entitled to rely on and may act upon advice of counsel in all matters, and shall be without liability for any action reasonably taken or omitted pursuant to such advice. In no event shall Custodian be liable for special, incidental or consequential damages, even if Custodian has been advised of the possibility of such damages, or be liable in any manner whatsoever for any action taken or omitted upon instructions from the Trust or any agent of the Trust.

-22-

8.2 ACTUAL COLLECTION REQUIRED. Custodian shall not be liable for, or considered to be the custodian of, any funds belonging to a Portfolio or any money represented by a check, draft or other instrument for the payment of money, until Custodian or its agents actually receive such funds or collect on such instrument.

8.3 NO RESPONSIBILITY FOR TITLE, ETC. So long as and to the extent that it is in the exercise of reasonable care, Custodian shall not be responsible for the title, validity or genuineness of any assets or evidence of title thereto received or delivered by it or its agents.

8.4 LIMITATION ON DUTY TO COLLECT. Custodian shall promptly notify the Trust whenever any money or property due and payable from or on account of any securities or other assets held hereunder for a Portfolio is not timely received by it. Custodian shall not, however, be required to enforce collection, by legal means or otherwise, of any such money or other property not paid when due, but shall receive the proceeds of such collections as may be effected by it or its agents in the ordinary course of Custodian's custody and safekeeping business or of the custody and safekeeping business of such agents.

8.5 EXPRESS DUTIES ONLY. Custodian shall have no duties or obligations whatsoever except such duties and obligations as are specifically set forth in this Agreement, and no covenant or obligation shall be implied in this Agreement against Custodian. Custodian shall have no discretion whatsoever with respect to the management, disposition or investment of the Custody Account of any Portfolio and is not a fiduciary to any Portfolio or the Trust. In particular,

Custodian shall not be under any obligation at any time to monitor or to take any other action with respect to compliance by any Portfolio or the Trust with the 1940 Act, the provisions of the Trust's trust instruments or by-laws, or any Portfolio's investment objectives, policies and limitations as in effect from time to time.

ARTICLE IX  
INDEMNIFICATION  
-----

9.1 INDEMNIFICATION BY PORTFOLIO. Each Portfolio shall indemnify and hold harmless Custodian, any sub-custodian appointed pursuant to this Agreement and any nominee of any of them,

-23-

from and against any loss, damages, cost, expense (including reasonable attorneys' fees and disbursements), liability (including, without limitation, liability arising under the Securities Act of 1933, the Securities Exchange Act of 1934, the 1940 Act, and any federal, state or foreign securities and/or banking laws) or claim arising directly or indirectly (a) from the fact that securities or other assets in the Custody Account of such Portfolio are registered in the name of any such nominee, or

(b) from any action or inaction, with respect to such Portfolio, by Custodian or such sub-custodian or nominee (i) at the request or direction of or in reliance on the advice of the Trust or any of its agents, or (ii) upon Proper Instructions, or (c) generally, from the performance of its obligations under this Agreement with respect to such Portfolio, provided that Custodian, any such sub-custodian or any nominee of any of them shall not be indemnified and

held harmless from and against (A) any such loss, damages, cost, expense, liability or claim arising from willful misfeasance, bad faith or negligence on the part of Custodian or any such sub-custodian or nominee, or (B) any special, incidental or consequential damages, even if such Portfolio has been advised of the possibility of such damages.

9.2 INDEMNITY TO BE PROVIDED. If the Trust requests Custodian to take any action with respect to securities or other assets of a Portfolio, which may, in the opinion of Custodian, result in Custodian or its nominee becoming liable for the payment of money or incurring liability of some other form, Custodian shall not be required to take such action until such Portfolio shall have provided indemnity therefor to Custodian in an amount and form satisfactory to Custodian.

9.3 INDEMNIFICATION BY CUSTODIAN. Custodian shall indemnify and hold harmless the Trust and each Portfolio from and against any loss, damages, cost, expense (including reasonable attorneys' fees and disbursements), liability (including, without limitation, liability arising under the Securities Act of

1933, the Securities Exchange Act of 1934, the 1940 Act, and any federal, state or foreign securities and/or banking laws) or claim arising from Custodian's willful misfeasance, bad faith or negligence in the performance of its obligations under this Agreement, provided that neither the Trust nor such Portfolio shall be indemnified and held harmless from and against (A) any such loss, damages, cost, expense, liability or claim arising from willful misfeasance, bad faith or

negligence on the part of the Trust or any Portfolio, or (B) any special, incidental or consequential damages, even if Custodian has been advised of the possibility of such damages.

9.4 SECURITY. As security for the payment of any present or future obligation or liability which a Portfolio may have to Custodian under Sections 3.15 or 3.18 hereof or any loan agreement between the such Portfolio or the Trust and Custodian, the Trust hereby pledges to Custodian all securities, funds and other assets of every kind which are in such Custody Account or otherwise held for such Portfolio pursuant to this Agreement, and hereby grants to Custodian a lien, right of set-off and continuing security interest in such securities, funds and other assets.

ARTICLE X  
FORCE MAJEURE  
-----

Custodian shall not be liable for any failure or delay in performance of its obligations under this Agreement arising out of or caused, directly or indirectly, by circumstances beyond its reasonable control, including, without limitation, acts of God; earthquakes; fires; floods; wars; civil or military disturbances; sabotage; strikes; epidemics; riots; power failures; computer failure and any such circumstances beyond its reasonable control as may cause interruption, loss or malfunction of utility, transportation, computer (hardware or software) or telephone communication service; accidents; labor disputes; acts of civil or military authority; actions by any governmental authority, de jure or de facto; or inability to obtain labor, material, equipment or transportation, provided that Custodian has taken measures to prepare for any such event which are substantially in accordance with those it is industry practice to take.

ARTICLE XI  
REPRESENTATIONS AND WARRANTIES  
-----

11.1 REPRESENTATIONS WITH RESPECT TO PORTFOLIOS. The Trust represents

and warrants that (a) it has all necessary power and authority to perform the obligations hereunder of each Portfolio, (b) the execution and delivery by it of this Agreement, and the performance by it of the obligations hereunder of each Portfolio, have been duly authorized by all necessary action and will not violate any law, regulation, charter, by-law, or other instrument, restriction or provision applicable to it or

-25-

such Portfolio or by which it or such Portfolio, or their respective assets, may be bound, and (c) this Agreement constitutes a legal, valid and binding obligation of the Trust of behalf of each Portfolio, enforceable against it in accordance with its terms.

11.2 REPRESENTATIONS OF CUSTODIAN. Custodian represents and warrants that (a) it has all necessary power and authority to perform its obligations hereunder, (b) the execution and delivery by it of this Agreement, and the performance by it of its obligations hereunder, have been duly authorized by all necessary action and will not violate any law, regulation, charter, by-law, or other instrument, restriction or provision applicable to it or by which it or its assets may be bound, and (c) this Agreement constitutes a legal, valid and binding obligation of it, enforceable against it in accordance with its terms.

ARTICLE XII  
COMPENSATION OF CUSTODIAN

-----

Each Portfolio shall pay Custodian such fees and charges as are set forth in Exhibit E hereto, as such Exhibit E may from time to time be revised by Custodian upon 65 days' prior written notice to the Trust. Any annual fee payable by a Portfolio shall be calculated on the basis of the total market value of the assets in the Custody Account of such Portfolio as determined on the last Business Day of the month for which such fee is charged; and such fee, and any transaction charges payable by such Portfolio, shall be paid monthly by automatic deduction from funds available therefor in the Custody Account of such Portfolio, or, if there are no such funds, upon presentation of an invoice therefor. Out-of-pocket expenses incurred by Custodian in the proper performance of its services hereunder for any Portfolio and all other proper charges and disbursements of the Custody Account of such Portfolio shall be charged to such Custody Account by Custodian and paid in the same manner as the annual fee and other charges referred to in this Article XII, and Custodian shall promptly provide the Trust with supporting evidence for such out-of-pocket expenses, charges and disbursements.

-26-

ARTICLE XIII

TAXES

-----

13.1 TAXES PAYABLE BY PORTFOLIOS. Any and all taxes, including any interest and penalties with respect thereto, which may be levied or assessed under present or future laws or in respect of the Custody Account of any Portfolio or any income thereof shall be charged to such Custody Account by Custodian and paid in the same manner as the annual fee and other charges referred to in Article XII above.

13.2 TAX RECLAIMS. Upon the written request of the Trust, Custodian shall exercise, on behalf of any Portfolio, any tax reclaim rights of such Portfolio which arise in connection with foreign securities in the Custody Account of such Portfolio.

ARTICLE XIV

AUTHORIZED PERSONS; NOTICES

-----

14.1 AUTHORIZED PERSONS. Custodian may rely upon and act in accordance with any notice, confirmation, instruction or other communication which is reasonably believed by Custodian to have been given or signed on behalf of the Trust by one of the Authorized Persons designated by the Trust in Exhibit B hereto, as it may from time to time be revised. The Trust may revise Exhibit B hereto at any time by notice in writing to Custodian given in accordance with Section 14.4 below, but no revision of Exhibit B hereto shall be effective until Custodian actually receives such notice.

14.2 INVESTMENT ADVISERS. Custodian may also rely upon and act in accordance with any Written or Oral Instructions given with respect to a Portfolio which are reasonably believed by Custodian to have been given or signed by one of the persons designated from time to time by the Trust with respect to any of the investment advisers of such Portfolio who are specified in Exhibit C hereto (if any) as it may from time to time be revised. The Trust may revise Exhibit C hereto at any time by notice in writing to Custodian given in accordance with Section 14.4 below and may at any time by like notice designate an Authorized Person or remove an Authorized Person previously designated by it, but no revision of Exhibit C hereto (if any) and no such designation or removal of an Authorized Person shall be effective until Custodian actually receives such notice.

14.3 ORAL INSTRUCTIONS. Custodian may rely upon and act in accordance with Oral Instructions. All Oral Instructions shall be confirmed to Custodian in Written Instructions. However, if Written Instructions confirming Oral Instructions are not received by Custodian prior to a transaction, it shall in

no way affect the validity of the transaction authorized by such Oral Instructions or the authorization given by an Authorized Person to effect such transaction. Custodian shall incur no liability to any Portfolio or the Trust in acting upon Oral Instructions. To the extent such Oral Instructions vary from any confirming Written Instructions, Custodian shall advise the Trust of such variance but unless confirming Written Instructions are timely received, such Oral Instructions shall govern.

14.4 ADDRESSES FOR NOTICES. Unless otherwise specified herein, all demands, notices, instructions, and other communications to be given hereunder shall be sent, delivered or given to the recipient at the address, or the relevant telephone number, set forth after its name hereinbelow, and if so sent shall be effective upon receipt:

If to the Trust:

THIRD AVENUE VARIABLE SERIES TRUST  
for [INSERT NAME OF PORTFOLIO]  
767 Third Avenue  
New York, NY 10017-2023  
Attention: GENERAL COUNSEL  
Telephone: (212) 888-6685  
Facsimile: (212) 735-0003

If to Custodian:

CUSTODIAL TRUST COMPANY  
101 Carnegie Center  
Princeton, New Jersey 08540-6231  
Attention: VICE PRESIDENT - TRUST OPERATIONS  
Telephone: (609) 951-2320  
Facsimile: (609) 951-2327

-28-

or at such other address as either party hereto shall have provided to the other by notice given in accordance with this Section 14.4. Writing shall include transmissions by or through teletype, facsimile, central processing unit connection, on-line terminal and magnetic tape.

14.5 REMOTE CLEARANCE. Written Instructions for the receipt, delivery or transfer of securities may include, and Custodian shall accept, Remote Clearance Instructions (as defined hereinbelow) and Bulk Input Instructions (as defined hereinbelow), provided that such Instructions are given in accordance with the procedures prescribed by Custodian from time to time as to content of instructions and their manner and timeliness of delivery by Customer. Custodian shall be entitled to conclusively assume that all Remote Clearance Instructions and Bulk Input Instructions have been given by an Authorized Person, and

Custodian is hereby irrevocably authorized to act in accordance therewith. For purposes of this Agreement, "Remote Clearance Instructions" means instructions that are input directly via a remote terminal which is located on the premises of the Trust, or of an investment adviser named in Exhibit C hereto, and linked to Custodian; and "Bulk Input Instructions" means instructions that are input by bulk input computer tape delivered to Custodian by messenger or transmitted to it via such transmission mechanism as the Trust and Custodian shall from time to time agree upon.

ARTICLE XV  
TERMINATION  
-----

Either party hereto may terminate this Agreement with respect to one or more of the Portfolios by giving to the other party a notice in writing specifying the date of such termination, which shall be not less than sixty (60) days after the date of the giving of such notice. Upon the date set forth in such notice this Agreement shall terminate with respect to each Portfolio specified in such notice, and Custodian shall, upon receipt of a notice of acceptance by the successor custodian, on that date (a) deliver directly to the successor custodian or its agents all securities (other than securities held in a Book-Entry System or Securities Depository) and other assets then owned by such Portfolio and held by Custodian as custodian, and (b) transfer any securities held in a Book-Entry System or Securities Depository to an account of or for the benefit of such Portfolio,

-29-

provided that such Portfolio shall have paid to Custodian all fees, expenses and other amounts to the payment or reimbursement of which it shall then be entitled.

ARTICLE XVI  
LIMITATION OF LIABILITIES  
-----

To the extent that the trustees of the Trust are regarded as entering into this Agreement, they do so only as trustees of the Trust and not individually. The obligations under this Agreement of the Trust or any Portfolio shall not be binding upon any trustee, officer or employee of the Trust individually, or upon any holder of Shares individually, or upon any other series of the Trust or any holder, individually, of shares of such other series, but shall be binding only upon the assets and property of such Portfolio. Such trustees, officers, employees and holders, when acting in such capacities, shall not be personally liable under this Agreement, and Custodian shall look solely to the assets and property of each Portfolio for the performance of this Agreement with respect to such Portfolio and the payment of any claim against such Portfolio under this Agreement.

ARTICLE XVII  
MISCELLANEOUS  
-----

17.1 BUSINESS DAYS. Nothing contained in this Agreement shall require Custodian to perform any function or duty on a day other than a Business Day.

17.2 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without regard to the conflict of law principles thereof.

17.3 REFERENCES TO CUSTODIAN. The Trust shall not circulate any printed matter which contains any reference to Custodian without the prior written approval of Custodian, excepting printed matter contained in the prospectus or statement of additional information for a Portfolio and such other printed matter as merely identifies Custodian as custodian for a Portfolio. The Trust shall submit printed matter requiring approval to Custodian in draft form, allowing sufficient time for review by Custodian and its counsel prior to any deadline for printing.

-30-

17.4 NO WAIVER. No failure by either party hereto to exercise, and no delay by such party in exercising, any right hereunder shall operate as a waiver thereof. The exercise by either party hereto of any right hereunder shall not preclude the exercise of any other right, and the remedies provided herein are cumulative and not exclusive of any remedies provided at law or in equity.

17.5 AMENDMENTS. This Agreement cannot be changed orally and, except as otherwise provided herein with respect to the Exhibits attached hereto, no amendment to this Agreement shall be effective unless evidenced by an instrument in writing executed by the parties hereto.

17.6 COUNTERPARTS. This Agreement may be executed in one or more counterparts, and by the parties hereto on separate counterparts, each of which shall be deemed an original but all of which together shall constitute but one and the same instrument.

17.7 SEVERABILITY. If any provision of this Agreement shall be invalid, illegal or unenforceable in any respect under any applicable law, the validity, legality and enforceability of the remaining provisions shall not be affected or impaired thereby.

17.8 SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that this Agreement shall not be assignable by either party hereto without the written consent of the other party. Any purported assignment in violation of this Section 17.8 shall be void.

17.9 JURISDICTION. Any suit, action or proceeding with respect to this Agreement may be brought in the Supreme Court of the State of New York, County of New York, or in the United States District Court for the Southern District of New York, and the parties hereto hereby submit to the non-exclusive jurisdiction of such courts for the purpose of any such suit, action or proceeding, and hereby waive for such purpose any other preferential jurisdiction by reason of their present or future domicile or otherwise.

-31-

17.10 HEADINGS. The headings of sections in this Agreement are for convenience of reference only and shall not affect the meaning or construction of any provision of this Agreement.

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed in its name and on its behalf by its representative thereunto duly authorized, all as of the day and year first above written.

THIRD AVENUE VARIABLE SERIES  
TRUST

CUSTODIAL TRUST COMPANY

By: \_\_\_\_\_

Name:  
Title:

By: \_\_\_\_\_

Name:  
Title:

-32-

EXHIBIT A

PORTFOLIOS

-----

Third Avenue Value Portfolio

EXHIBIT B

AUTHORIZED PERSONS

-----

Set forth below are the names and specimen signatures of the persons authorized by the Trust to administer the Custody Accounts of the Portfolios.

Name

Signature

----

-----

Martin J. Whitman

-----

Michael T. Carney

-----

Kerri Weltz

-----

EXHIBIT C

INVESTMENT ADVISERS

-----

ALL PORTFOLIOS

EQSF Advisers, Inc.

EXHIBIT D

APPROVED FOREIGN SUB-CUSTODIANS AND SECURITIES DEPOSITORIES

-----

ALL PORTFOLIOS

| Foreign Sub-custodian<br>----- | Country(ies)<br>----- | Securities Depositories<br>-----                 |
|--------------------------------|-----------------------|--|
| Citibank, N.A                  | Japan                 | The Bank of Japan<br>Japan Securities Depository |

EXHIBIT E

CUSTODY FEES AND TRANSACTION CHARGES

-----

All fees and charges set forth in this Exhibit E shall be calculated and paid in the manner provided in Article XII above.

DOMESTIC FEES. Each Portfolio shall pay Custodian the following fees for assets maintained by such Portfolio in the United States ("Domestic Assets") and charges for transactions by such Portfolio in the United States, all such fees and charges to be payable monthly:

(1) an annual fee of the greater of 0.01% (one basis points) per annum of the value of the Domestic Assets in the Custody Account of such Portfolio or \$6,000, any such percentage fee to be based upon the total market value of such Domestic Assets as determined on the last Business Day of the month for which such fee is charged;

(2) a transaction charge of \$12 for each receive or deliver of book-entry securities into or from the Custody Account of such Portfolio (but not for any such receive or deliver of book-entry securities loaned by such Portfolio or constituting collateral for a loan of securities, or any such receive or deliver in a repurchase transaction representing (a) a cash sweep investment for such Portfolio's account or (b) the investment by such Portfolio of cash collateral for a loan of securities);

(3) a transaction charge of \$40 for each receive or deliver into or from such Portfolio's Custody Account of securities in physical form;

(4) a transaction charge for each repurchase transaction in the Custody Account of such Portfolio which represents a cash sweep investment for such Portfolio's account, computed on the basis of a 360-day year and for the actual number of days such repurchase transaction is outstanding at a rate of 0.10% (ten basis points) per annum on the amount of the purchase price paid by such Portfolio in such repurchase transaction;

-37-

(5) a charge of \$7 for each "free" wire transfer of funds from the Custody Account of such Portfolio;

(6) a charge of \$5 for each disbursement of funds made by check; and

(7) an administrative fee for each purchase in the Custody Account of such Portfolio of shares or other interests in a money market or other fund, which purchase represents a cash sweep investment for such Portfolio's account, computed for each day that there is a positive balance in such fund to equal 1/365th of 0.10% (ten basis points) on the amount of such positive balance for such day; and

(8) a reasonable service charge for each holding of securities or other assets of such Portfolio that are sold by way of private placement or in such other manner as to require services by Custodian which in its reasonable judgment are materially in excess of those ordinarily required for the holding of publicly traded securities in the United States.

INTERNATIONAL FEES. Each Portfolio shall pay Custodian fees for assets maintained by such Portfolio outside the United States ("Foreign Assets") and charges for transactions by such Portfolio outside the United States (including, without limitation, charges for funds transfers and tax reclaims) in accordance

with such schedule of fees and charges for each country in which Foreign Assets of such Portfolio are held as Custodian shall from time to time provide to the Trust. Any asset-based fee shall be based upon the total market value of the applicable Foreign Assets as determined on the last Business Day of the month for which such fee is charged.

SERVICES AGREEMENT

THIS AGREEMENT, dated as of this 10th day of September, 1999 (the "Effective Date") between THIRD AVENUE VARIABLE SERIES TRUST (the "Fund"), a Delaware business trust having its principal place of business at 767 Third Avenue, New York, New York 10017 and FIRST DATA INVESTOR SERVICES GROUP, INC. ("Investor Services Group"), a Massachusetts corporation with principal offices at 4400 Computer Drive, Westboro, Massachusetts 01581.

WITNESSETH

-----

WHEREAS, the Fund is authorized to issue Shares in separate series, with each such series representing interests in a separate portfolio of securities or other assets.

WHEREAS, the Fund initially intends to offer Shares in those Portfolios identified in the attached Schedule A, each such Portfolio, together with all other Portfolios subsequently established by the Fund shall be subject to this Agreement in accordance with Article 14;

WHEREAS, the Fund on behalf of the Portfolios, desires to appoint Investor Services Group as its fund accounting agent, transfer agent, dividend disbursing agent and agent in connection with certain other activities and Investor Services Group desires to accept such appointment;

NOW, THEREFORE, in consideration of the mutual covenants and promises hereinafter set forth, the Fund and Investor Services Group agree as follows:

Article 1 DEFINITIONS.

1.1 Whenever used in this Agreement, the following words and phrases, unless the context otherwise requires, shall have the following meanings:

(a) "Articles of Incorporation" shall mean the Articles of Incorporation, Declaration of Trust, or other similar organizational document as the case may be, of the Fund as the same may be amended from time to time.

(b) "Authorized Person" shall be deemed to include (i) any authorized officer of the Fund; or (ii) any person, whether or not such person is an officer or employee of the Fund, duly authorized to give Oral Instructions or Written Instructions on behalf of the Fund as indicated in writing to Investor Services Group from time to time.

(c) "Board Members" shall mean the Directors or Trustees of the governing body of the Fund, as the case may be.

(d) "Board of Directors" shall mean the Board of Directors or Board of Trustees of the Fund, as the case may be.

-1-

(e) "Commencement Date" shall mean the date on which Investor Services Group commences providing services to the Fund pursuant to this Agreement.

(f) "Commission" shall mean the Securities and Exchange Commission.

(g) "Custodian" refers to any custodian or subcustodian of securities and other property which the Fund may from time to time deposit, or cause to be deposited or held under the name or account of such a custodian pursuant to a Custodian Agreement.

(h) "1934 Act" shall mean the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder, all as amended from time to time.

(i) "1940 Act" shall mean the Investment Company Act of 1940 and the rules and regulations promulgated thereunder, all as amended from time to time.

(j) "Oral Instructions" shall mean instructions, other than Written Instructions, actually received by Investor Services Group from a person reasonably believed by Investor Services Group to be an Authorized Person;

(k) "Portfolio" shall mean each separate series of shares offered by the Fund representing interests in a separate portfolio of securities and other assets;

(l) "Prospectus" shall mean the most recently dated Fund Prospectus and Statement of Additional Information, including any supplements thereto if any, which has become effective under the Securities Act of 1933 and the 1940 Act.

(m) "Shares" refers collectively to such shares of capital stock or beneficial interest, as the case may be, or class thereof, of each respective Portfolio of the Fund as may be issued from time to time.

(n) "Shareholder" shall mean a record owner of Shares of each respective Portfolio of the Fund.

(o) "Written Instructions" shall mean a written communication signed by a person reasonably believed by Investor Services Group to be an Authorized Person and actually received by Investor Services Group. Written Instructions shall include manually executed originals and authorized electronic transmissions, including telefacsimile of a manually executed original or other process.

Article 2 APPOINTMENT OF INVESTOR SERVICES GROUP.

The Fund, on behalf of the Portfolios, hereby appoints and constitutes Investor Services Group as its transfer agent and dividend disbursing agent for Shares of each respective Portfolio of the Fund and as fund accounting agent, and shareholder servicing agent for the Fund, and

-2-

Investor Services Group hereby accepts such appointments and agrees to perform the duties hereinafter set forth. This Agreement shall be effective as of the Effective Date.

Article 3 DUTIES OF INVESTOR SERVICES GROUP.

3.1 Investor Services Group shall be responsible for:

(a) Administering and/or performing the customary services of a transfer agent; acting as service agent in connection with dividend and distribution functions; and for performing shareholder account and administrative agent functions in connection with the issuance, transfer and redemption or repurchase (including coordination with the Custodian) of Shares of each Portfolio, as more fully described in the written schedule of Duties of Investor Services Group annexed hereto as Schedule B and incorporated herein, and in accordance with the terms of the Prospectus of the Fund on behalf of the applicable Portfolio, applicable law and the procedures established from time to time between Investor Services Group and the Fund.

(b) Recording the issuance of Shares and maintaining pursuant to Rule 17Ad-10(e) of the 1934 Act a record of the total number of Shares of each Portfolio which are authorized, based upon data provided to it by the Fund, and issued and outstanding. Investor Services Group shall provide the Fund on a regular basis with the total number of Shares of each Portfolio which are authorized and issued and outstanding and, except as provided herein, shall have no obligation, when recording the issuance of Shares, to monitor the issuance of such Shares.

(c) Investor Services Group shall be responsible for the

following: performing the customary services of a fund accounting agent for the Fund, as more fully described in the written schedule of Duties of Investor Services Group annexed hereto as Schedule B and incorporated herein, and subject to the supervision and direction of the Board of Directors of the Fund.

(d) Notwithstanding any of the foregoing provisions of this Agreement, Investor Services Group shall be under no duty or obligation to inquire into, and shall not be liable for: (i) the legality of the issuance or sale of any Shares; (ii) the legality of the redemption of any Shares; (iii) the legality of the declaration of any dividend by the Board of Directors, or the legality of the issuance of any Shares in payment of any dividend; or (iv) the legality of any recapitalization or readjustment of the Shares.

3.2 In addition, the Fund shall (i) identify to Investor Services Group in writing those transactions and assets to be treated as exempt from blue sky reporting for each State and (ii) verify the establishment of transactions for each State on the system prior to activation and thereafter monitor the daily activity for each State. Except to the extent that Investor Services Group shall provide Blue Sky administration services to the Fund, the responsibility of Investor Services Group for the Fund's blue sky State registration status is solely limited to the initial establishment of transactions subject to blue sky compliance by the Fund.

-3-

3.3 In performing its duties under this Agreement, Investor Services Group: (a) will act in accordance with the Articles of Incorporation, By-Laws, Prospectuses and with the Oral Instructions and Written Instructions of the Fund and will conform to and comply with the requirements of the 1940 Act and all other applicable federal or state laws and regulations; and (b) will consult with legal counsel to the Fund, as necessary and appropriate. Furthermore, Investor Services Group shall not have or be required to have any authority to supervise the investment or reinvestment of the securities or other properties which comprise the assets of the Fund or any of its Portfolios and shall not provide any investment advisory services to the Fund or any of its Portfolios.

3.4 In addition to the duties set forth herein, Investor Services Group shall perform such other duties and functions, and shall be paid such amounts therefor, as may from time to time be agreed upon in writing between the Fund and Investor Services Group.

Article 4 RECORDKEEPING AND OTHER INFORMATION.

4.1 Investor Services Group shall create and maintain all records required of it pursuant to its duties hereunder and as set forth in Schedule B in accordance with all applicable laws, rules and regulations, including records required by Section 31(a) of the 1940 Act. Where applicable, such records shall be maintained by Investor Services Group for the periods and in the places required by Rule 31a-2 under the 1940 Act.

4.2 To the extent required by Section 31 of the 1940 Act, Investor Services Group agrees that all such records prepared or maintained by Investor Services Group relating to the services to be performed by Investor Services Group hereunder are the property of the Fund and will be preserved, maintained and made available in accordance with such section, and will be surrendered promptly to the Fund on and in accordance with the Fund's request.

4.3 In case of any requests or demands for the inspection of Shareholder records of the Fund, Investor Services Group will notify the Fund of such request and secure Written Instructions as to the handling of such request. Investor Services Group reserves the right, however, to exhibit the Shareholder records to any person whenever it is advised by its counsel that it may be held liable for the failure to comply with such request.

#### Article 5 FUND INSTRUCTIONS.

5.1 Investor Services Group will have no liability when acting upon Written or Oral Instructions reasonably believed to have been executed or orally communicated by an Authorized Person and will not be held to have any notice of any change of authority of any person until receipt of a Written Instruction thereof from the Fund. Investor Services Group will also have no liability when processing Share certificates which it reasonably believes to bear the proper manual or facsimile signatures of the officers of the Fund and the proper countersignature of Investor Services Group.

-4-

5.2 At any time, Investor Services Group may request Written Instructions from the Fund and may seek advice from legal counsel for the Fund, or its own legal counsel, with respect to any matter arising in connection with this Agreement, and it shall not be liable for any action taken or not taken or suffered by it in good faith in accordance with such Written Instructions or in accordance with the opinion of counsel for the Fund or for Investor Services Group. Written Instructions requested by Investor Services Group will be provided by the Fund within a reasonable period of time.

5.3 Investor Services Group, its officers, agents or employees, shall accept Oral Instructions or Written Instructions given to them by any person

representing or acting on behalf of the Fund only if said representative is an Authorized Person. The Fund agrees that all Oral Instructions shall be followed within one business day by confirming Written Instructions, and that the Fund's failure to so confirm shall not impair in any respect Investor Services Group's right to rely on Oral Instructions.

Article 6 COMPENSATION.

6.1 The Fund on behalf of each of the Portfolios will compensate Investor Services Group for the performance of its obligations hereunder in accordance with the fees and other charges set forth in the written Fee Schedule annexed hereto as Schedule C and incorporated herein.

6.2 In addition to those fees set forth in Section 6.1 above, the Fund on behalf of each of the Portfolios agrees to pay, and will be billed separately for, out-of-pocket expenses actually incurred by Investor Services Group in the performance of its duties hereunder. Out-of-pocket expenses shall include, but shall not be limited to, the items specified in the written schedule of out-of-pocket charges annexed hereto as Schedule D and incorporated herein. Schedule D may be modified by written agreement between the parties. Unspecified out-of-pocket expenses shall be limited to those out-of-pocket expenses reasonably incurred by Investor Services Group in the performance of its obligations hereunder.

6.3 The Fund on behalf of each of the Portfolios hereby authorizes Investor Services Group to collect its fees, other charges and related out-of-pocket expenses by debiting the Fund's or Portfolio's custody account for invoices which are rendered for the services performed for the applicable function. Invoices for the services performed will be sent to the Fund after such debiting with an indication that payment has been made. The Fund shall have the right in good faith to dispute any invoice amount in which case the Fund shall do the following within thirty (30) days of the postmark date: (a) identify for Investor Services Group the undisputed amount of the invoice; and (b) provide Investor Services Group with a detailed written description of the disputed amount and the basis for the Fund's dispute with such amount. The Fund and Investor Services Group shall cooperate in resolving disputed invoice amounts. Upon resolution of such dispute, Investor Services Group agrees to promptly refund such amounts determined to be due.

6.4 Any compensation agreed to hereunder may be adjusted from time to time by attaching to Schedule C, a revised Fee Schedule executed and dated by the parties hereto.

6.5 Investor Services Group will from time to time employ or associate

with itself such person or persons as Investor Services Group may believe to be particularly suited to assist it in performing services under this Agreement. Such person or persons may be officers and employees who are employed by both Investor Services Group and the Fund. The compensation of such person or persons shall be paid by Investor Services Group and no obligation shall be incurred on behalf of the Fund in such respect.

6.6 Investor Services Group shall not be required to pay any of the following expenses incurred by the Fund: membership dues in the Investment Company Institute or any similar organization; investment advisory expenses; costs of printing and mailing stock certificates, prospectuses, reports and notices; interest on borrowed money; brokerage commissions; stock exchange listing fees; taxes and fees payable to Federal, state and other governmental agencies; fees of Board Members of the Fund who are not affiliated with Investor Services Group; outside auditing expenses; outside legal expenses; Blue Sky registration or filing fees; or other expenses not specified in this Section 6.7 which may be properly payable by the Fund.

Article 7 [RESERVED]

Article 8 INVESTOR SERVICES GROUP SYSTEM.

8.1 Investor Services Group shall retain title to and ownership of any and all data bases, computer programs, screen formats, report formats, interactive design techniques, derivative works, inventions, discoveries, patentable or copyrightable matters, concepts, expertise, patents, copyrights, trade secrets, and other related legal rights utilized by Investor Services Group in connection with the services provided by Investor Services Group to the Fund herein (the "Investor Services Group System").

8.2 Investor Services Group hereby grants to the Fund a limited license to the Investor Services Group System for the sole and limited purpose of having Investor Services Group provide the services contemplated hereunder and nothing contained in this Agreement shall be construed or interpreted otherwise and such license shall immediately terminate with the termination of this Agreement.

8.3 In the event that the Fund, including any affiliate or agent of the Fund or any third party acting on behalf of the Fund is provided with direct access to the Investor Services Group System for either account inquiry or to transmit transaction information, including but not limited to maintenance, exchanges, purchases and redemptions, such direct access capability shall be limited to direct entry to the Investor Services Group System by means of on-line mainframe terminal entry or PC emulation of such mainframe terminal entry and any other non-conforming method of transmission of information to the Investor Services Group System is strictly prohibited without the prior written consent of Investor Services Group.

Article 9 REPRESENTATIONS AND WARRANTIES.

9.1 Investor Services Group represents and warrants to the Fund that:

(a) it is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Massachusetts;

(b) it is empowered under applicable laws and by its Articles of Incorporation and By-Laws to enter into and perform this Agreement;

(c) all requisite corporate proceedings have been taken to authorize it to enter into this Agreement;

(d) it is duly registered with its appropriate regulatory agency as a transfer agent and such registration will remain in effect for the duration of this Agreement; and

(e) it has and will continue to have access to the necessary facilities, equipment and personnel to perform its duties and obligations under this Agreement.

9.2 The Fund represents and warrants to Investor Services Group that:

(a) it is duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is organized;

(b) it is empowered under applicable laws and by its Declaration of Trust and By-Laws to enter into this Agreement;

(c) all corporate proceedings required by said Declaration of Trust, By-Laws and applicable laws have been taken to authorize it to enter into this Agreement; and

(d) all outstanding Shares are validly issued, fully paid and non-assessable and when Shares are hereafter issued in accordance with the terms of the Fund's Articles of Incorporation and its Prospectus with respect to each Portfolio, such Shares shall be validly issued, fully paid and non-assessable.

Article 10 INDEMNIFICATION.

10.1 Investor Services Group shall not be responsible for and the Fund on behalf of each Portfolio shall indemnify and hold Investor Services Group harmless from and against any and all claims, costs, expenses (including reasonable attorneys' fees), losses, damages, charges, payments and liabilities

of any sort or kind which may be asserted against Investor Services Group or for which Investor Services Group may be held to be liable (a "Claim") arising out of or attributable to any of the following:

-7-

(a) any actions of Investor Services Group required to be taken pursuant to this Agreement unless such Claim resulted from a negligent act or omission to act or bad faith by Investor Services Group in the performance of its duties hereunder;

(b) Investor Services Group's reasonable reliance on, or reasonable use of information, data, records and documents (including but not limited to magnetic tapes, computer printouts, hard copies and microfilm copies) received by Investor Services Group from the Fund, or any authorized third party acting on behalf of the Fund, including but not limited to the prior transfer agent for the Fund, except FPS Services, Inc., in the performance of Investor Services Group's duties and obligations hereunder;

(c) the reliance on, or the implementation of, any Written or Oral Instructions or any other instructions or requests of the Fund on behalf of the applicable Portfolio;

(d) the offer or sales of shares in violation of any requirement under the securities laws or regulations of any state that such shares be registered in such state or in violation of any stop order or other determination or ruling by any state with respect to the offer or sale of such shares in such state; and

(e) the Fund's refusal or failure to comply with the terms of this Agreement, or any Claim which arises out of the Fund's negligence or misconduct or the breach of any representation or warranty of the Fund made herein.

10.2 Investor Services Group shall indemnify and hold the Fund harmless from and against any and all claims, costs, expenses (including reasonable attorneys' fees), losses, damages, charges, payments and liabilities of any sort or kind which may be asserted against the Fund or for which the Fund may be held to be liable in connection with this Agreement (a "Claim"), provided that such Claim resulted from a negligent act or omission to act, bad faith, willful misfeasance or reckless disregard by Investor Services Group in the performance of its duties hereunder.

10.3 In any case in which one party (the "Indemnifying Party") may be

asked to indemnify or hold the other party (the "Indemnified Party") harmless, the Indemnified Party will notify the Indemnifying Party promptly after identifying any situation which it believes presents or appears likely to present a claim for indemnification against the Indemnified Party although the failure to do so shall not prevent recovery by the Indemnified Party and shall keep the Indemnifying Party advised with respect to all developments concerning such situation. The Indemnifying Party shall have the option to defend the Indemnified Party against any Claim which may be the subject of this indemnification, and, in the event that the Indemnifying Party so elects, such defense shall be conducted by counsel chosen by the Indemnifying Party and reasonably satisfactory to the Indemnified Party, and thereupon the Indemnifying Party shall take over complete defense of the Claim and the Indemnified Party shall sustain no further legal or other expenses in respect of such Claim. The Indemnified Party will not confess any Claim or make any compromise in any case in which the Indemnifying Party will be asked to provide

-8-

indemnification, except with the Indemnifying Party's prior written consent. The obligations of the parties hereto under this Article 10 shall survive the termination of this Agreement.

10.4 Any claim for indemnification under this Agreement must be made prior to the earlier of:

(a) one year after the Indemnified Party becomes aware of the event for which indemnification is claimed; or

(b) one year after the earlier of the termination of this Agreement or the expiration of the term of this Agreement.

10.5 Except for remedies that cannot be waived as a matter of law (and injunctive or provisional relief), the provisions of this Article 10 shall be Investor Services Group's sole and exclusive remedy for claims or other actions or proceedings to which the Fund's indemnification obligations pursuant to this Article 10 may apply.

## Article 11 STANDARD OF CARE.

11.1 Investor Services Group shall at all times act in good faith and agrees to use its best efforts within commercially reasonable limits to ensure the accuracy of all services performed under this Agreement, but assumes no responsibility for loss or damage to the Fund unless said errors are caused by Investor Services Group's own negligence, bad faith or willful misconduct or that of its employees.

11.2 Neither party may assert any cause of action against the other party under this Agreement that accrued more than three (3) years prior to the filing of the suit (or commencement of arbitration proceedings) alleging such cause of action.

11.3 Each party shall have the duty to mitigate damages for which the other party may become responsible.

## Article 12 CONSEQUENTIAL DAMAGES.

NOTWITHSTANDING ANYTHING IN THIS AGREEMENT TO THE CONTRARY, IN NO EVENT SHALL EITHER PARTY, ITS AFFILIATES OR ANY OF ITS OR THEIR DIRECTORS, OFFICERS, EMPLOYEES, AGENTS OR SUBCONTRACTORS BE LIABLE FOR INCIDENTAL, INDIRECT OR CONSEQUENTIAL DAMAGES.

As used in the preceding paragraph "incidental, indirect or consequential damages" means damages which do not flow directly from the act of the party or which arise from the intervention of special circumstances not ordinarily predictable, and does NOT include direct damages which arise naturally or ordinarily from a breach of contract.

-9-

## Article 13 TERM AND TERMINATION.

13.1 This Agreement shall be effective on the date first written above and shall continue for a period of three (3) years (the "Initial Term").

13.2 Upon the expiration of the Initial Term, this Agreement shall automatically renew for successive terms of one (1) year ("Renewal Terms") each, unless the Fund or Investor Services Group provides written notice to the other of its intent not to renew. Such notice must be received not less than ninety (90) days and not more than one-hundred eighty (180) days prior to the expiration of the Initial Term or the then current Renewal Term. The Fund shall have the right to terminate this Agreement prior to the expiration of the Initial Term or then current Renewal Term upon sixty (60) days written notice to Investor Services Group if the Fund's Board of Trustees finds in the exercise of its fiduciary duty that Investor Services Group is materially unable to perform its duties and obligations under this Agreement.

13.3 In the event a termination notice is given by the Fund, all expenses associated with movement of records and materials and conversion thereof to a successor service provider will be borne by the Fund.

13.4 If a party hereto is guilty of a material failure to perform its duties and obligations hereunder (a "Defaulting Party") the other party (the "Non-Defaulting Party") may give written notice thereof to the Defaulting Party, and if such material breach shall not have been remedied within thirty (30) days after such written notice is given, then the Non-Defaulting Party may terminate this Agreement by giving thirty (30) days written notice of such termination to the Defaulting Party. If the material failure is one for which the Non-Defaulting Party has previously given the Defaulting Party notice as provided in the previous sentence, the Agreement may be terminated by the Non-Defaulting Party upon thirty (30) days written notice without giving the Defaulting Party a second opportunity to cure such material failure. If Investor Services Group is the Non-Defaulting Party, its termination of this Agreement shall not constitute a waiver of any other rights or remedies of Investor Services Group with respect to services performed prior to such termination of rights of Investor Services Group to be reimbursed for out-of-pocket expenses. In all cases, termination by the Non-Defaulting Party shall not constitute a waiver by the Non-Defaulting Party of any other rights it might have under this Agreement or otherwise against the Defaulting Party.

13.5 Notwithstanding anything contained in this Agreement to the contrary and except as provided in Section 13.4, should the Fund desire to move any of the services provided by Investor Services Group hereunder to a successor service provider prior to the expiration of the then current Initial or Renewal Term, or should the Fund or any of its affiliates take any action which would result in Investor Services Group ceasing to provide transfer agency or fund accounting services to the Fund prior to the expiration of the Initial or any Renewal Term, Investor Services Group shall make a good faith effort and use all commercially reasonable efforts to facilitate the conversion on such prior date, however, there can be no guarantee that Investor Services Group will be able to facilitate a conversion of services on such prior date. In connection with the foregoing, should services be converted to a successor service provider or

-10-

should the Fund or any of its affiliates take any action which would result in Investor Services Group ceasing to provide transfer agency or fund accounting services to the Fund prior to the expiration of the Initial or any Renewal Term, the payment of fees to Investor Services Group as set forth herein shall be accelerated to a date prior to the conversion or termination of services and calculated as if the services had remained with Investor Services Group until the expiration of the then current Initial or Renewal Term and calculated at the asset and/or Shareholder account levels, as the case may be, on the date notice of termination was given to Investor Services Group.

Article 14 ADDITIONAL PORTFOLIOS

14.1 In the event that the Fund establishes one or more Portfolios in addition to those identified in Schedule A, with respect to which the Fund desires to have Investor Services Group render services as service provider under the terms hereof, the Fund shall so notify Investor Services Group in writing, and if Investor Services Group agrees in writing to provide such services, Exhibit 1 shall be amended to include such additional Portfolios. If after good faith negotiations, the parties are unable to agree upon the conditions upon which Investor Services Group will service the new Portfolio, either party shall have the right to terminate this Agreement upon sixty (60) days written notice to the other party.

Article 15 CONFIDENTIALITY.

15.1 The parties agree that the Proprietary Information (defined below) (collectively "Confidential Information") are confidential information of the parties and their respective licensors. The Fund and Investor Services Group shall exercise at least the same degree of care, but not less than reasonable care, to safeguard the confidentiality of the Confidential Information of the other as it would exercise to protect its own confidential information of a similar nature. The Fund and Investor Services Group shall not duplicate, sell or disclose to others the Confidential Information of the other, in whole or in part, without the prior written permission of the other party. The Fund and Investor Services Group may, however, disclose Confidential Information to their respective parent corporation, their respective affiliates, their subsidiaries and affiliated companies and employees, provided that each shall use reasonable efforts to ensure that the Confidential Information is not duplicated or disclosed in breach of this Agreement. The Fund and Investor Services Group may also disclose the Confidential Information to independent contractors, auditors, and professional advisors, provided they first agree in writing to be bound by the confidentiality obligations substantially similar to this Section 15.1. Notwithstanding the previous sentence, in no event shall either the Fund or Investor Services Group disclose the Confidential Information to any competitor of the other without specific, prior written consent.

15.2 Proprietary Information means:

(a) any data or information that is competitively sensitive material, and not generally known to the public, including, but not limited to, information about product plans, marketing strategies, finance, operations, customer relationships, customer profiles, sales estimates, business plans, portfolio holdings, and internal performance results

relating to the past, present or future business activities of the

Fund or Investor Services Group, their respective subsidiaries and affiliated companies and the customers, clients and suppliers of any of them;

(b) any scientific or technical information, design, process, procedure, formula, or improvement that is commercially valuable and secret in the sense that its confidentiality affords the Fund or Investor Services Group a competitive advantage over its competitors; and

(c) all confidential or proprietary concepts, documentation, reports, data, specifications, computer software, source code, object code, flow charts, databases, inventions, know-how, show-how and trade secrets, whether or not patentable or copyrightable.

15.3 Confidential Information includes, without limitation, all documents, inventions, substances, engineering and laboratory notebooks, drawings, diagrams, specifications, bills of material, equipment, prototypes and models, and any other tangible manifestation of the foregoing of either party which now exist or come into the control or possession of the other.

15.4 The obligations of confidentiality and restriction on use herein shall not apply to any Confidential Information that a party proves:

(a) Was in the public domain prior to the date of this Agreement or subsequently came into the public domain through no fault of such party; or

(b) Was lawfully received by the party from a third party free of any obligation of confidence to such third party; or

(c) Was already in the possession of the party prior to receipt thereof, directly or indirectly, from the other party; or

(d) Is required to be disclosed in a judicial or administrative proceeding after all reasonable legal remedies for maintaining such information in confidence have been exhausted including, but not limited to, giving the other party as much advance notice of the possibility of such disclosure as practical so the other party may attempt to stop such disclosure or obtain a protective order concerning such disclosure; or

(e) Is subsequently and independently developed by employees, consultants or agents of the party without reference to the Confidential Information disclosed under this Agreement.

Article 16 FORCE MAJEURE; EXCUSED NON-PERFORMANCE.

No party shall be liable for any default or delay in the performance of its obligations under this Agreement if and to the extent such default or delay is caused, directly or indirectly, by

(i) fire, flood, elements of nature or other acts of God; (ii) any outbreak or escalation of hostilities, war, riots or civil disorders in any country, (iii) any act or omission of the other party or any governmental authority; (iv) any labor disputes (provided that the employees' demands are not reasonable and within the party's power to satisfy); or (v) nonperformance by a third party or any similar cause beyond the reasonable control of such party, including without limitation, failures or fluctuations in telecommunications or other equipment. In addition, no party shall be liable for any default or delay in the performance of its obligations under this Agreement if and to the extent that such default or delay is caused, directly or indirectly, by the actions or inactions of the other party. In any such event, the non-performing party shall be excused from any further performance and observance of the obligations so affected only for as long as such circumstances prevail and such party continues to use commercially reasonable efforts to recommence performance or observance as soon as practicable.

Article 17                    ASSIGNMENT AND SUBCONTRACTING.

This Agreement, its benefits and obligations shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. This Agreement may not be assigned or otherwise transferred by either party hereto, without the prior written consent of the other party, which consent shall not be unreasonably withheld; provided, however, that Investor Services Group may, in its sole discretion, assign all its right, title and interest in this Agreement to an affiliate, parent or subsidiary. Investor Services Group may, in its sole discretion, engage subcontractors to perform any of the obligations contained in this Agreement to be performed by Investor Services Group but shall no be relieved of its obligations and responsibilities hereunder by reason of any such engagement.

Article 18                    ARBITRATION.

18.1 Any claim or controversy arising out of or relating to this Agreement, or breach hereof, shall be settled by arbitration administered by the American Arbitration Association in New York, New York in accordance with its applicable rules, except that the Federal Rules of Evidence and the Federal Rules of Civil Procedure with respect to the discovery process shall apply.

18.2 The parties hereby agree that judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction.

18.3 The parties acknowledge and agree that the performance of the obligations under this Agreement necessitates the use of instrumentalities of

interstate commerce and, notwithstanding other general choice of law provisions in this Agreement, the parties agree that the Federal Arbitration Act shall govern and control with respect to the provisions of this Article 18.

-13-

Article 19 NOTICE.

Any notice or other instrument authorized or required by this Agreement to be given in writing to the Fund or Investor Services Group, shall be sufficiently given if addressed to that party and received by it at its office set forth below or at such other place as it may from time to time designate in writing.

To the Fund:

Third Avenue Variable Series Trust  
767 Third Avenue  
New York, New York 10017  
Attention: Ian M. Kirschner, General Counsel

To Investor Services Group:

First Data Investor Services Group, Inc.  
4400 Computer Drive  
Westboro, Massachusetts 01581  
Attention: President

with a copy to Investor Services Group's General Counsel

Article 20 GOVERNING LAW/VENUE.

The laws of the State of New York, excluding the laws on conflicts of laws, shall govern the interpretation, validity, and enforcement of this agreement.

Article 21 COUNTERPARTS.

This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original; but such counterparts shall, together, constitute only one instrument.

Article 22 CAPTIONS.

The captions of this Agreement are included for convenience of reference only and in no way define or limit any of the provisions hereof or

otherwise affect their construction or effect.

Article 23 PUBLICITY.

Neither Investor Services Group nor the Fund shall release or publish news releases, public announcements, advertising or other publicity relating to this Agreement or to the transactions contemplated by it without the prior review and written approval of the other party; provided, however, that either party may make such disclosures as are required by legal,

-14-

accounting or regulatory requirements after making reasonable efforts in the circumstances to consult in advance with the other party.

Article 24 RELATIONSHIP OF PARTIES/NON-SOLICITATION.

24.1 The parties agree that they are independent contractors and not partners or co-venturers and nothing contained herein shall be interpreted or construed otherwise.

24.2 During the term of this Agreement and for one (1) year afterward, neither Party shall recruit, solicit, employ or engage, for itself or others, the other Party's employees.

Article 25 ENTIRE AGREEMENT; SEVERABILITY.

25.1 This Agreement, including Schedules, Addenda, and Exhibits hereto, constitutes the entire Agreement between the parties with respect to the subject matter hereof and supersedes all prior and contemporaneous proposals, agreements, contracts, representations, and understandings, whether written or oral, between the parties with respect to the subject matter hereof. No change, termination, modification, or waiver of any term or condition of the Agreement shall be valid unless in writing signed by each party. No such writing shall be effective as against Investor Services Group unless said writing is executed by a Senior Vice President, Executive Vice President, or President of Investor Services Group. A party's waiver of a breach of any term or condition in the Agreement shall not be deemed a waiver of any subsequent breach of the same or another term or condition.

25.2 The parties intend every provision of this Agreement to be severable. If a court of competent jurisdiction determines that any term or provision is illegal or invalid for any reason, the illegality or invalidity shall not affect the validity of the remainder of this Agreement. In such case, the parties shall in good faith modify or substitute such provision consistent with the original intent of the parties. Without limiting the generality of this

paragraph, if a court determines that any remedy stated in this Agreement has failed of its essential purpose, then all other provisions of this Agreement, including the limitations on liability and exclusion of damages, shall remain fully effective.

Article 26 MISCELLANEOUS.

The Fund and Investor Services Group agree that the obligations of the Fund under the Agreement shall not be binding upon any of the Board Members, shareholders, nominees, officers, employees or agents, whether past, present or future, of the Fund individually, but are binding only upon the assets and property of the Fund, as provided in the Articles of Incorporation. The execution and delivery of this Agreement have been authorized by the Board Members of the Fund, and signed by an authorized officer of the Fund, acting as such, and neither such authorization by such Board Members nor such execution and delivery by such officer shall be deemed to have been made by any of them or any shareholder of the Fund individually or to impose any liability on any of them or any shareholder of the Fund personally, but shall bind only the assets and property of the Fund as provided in the Articles of

Incorporation and all persons dealing with any Portfolio of the Fund must look solely to the trust property belonging to such Portfolio for the enforcement of any claims against the Fund.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers, as of the day and year first above written.

THIRD AVENUE VARIABLE SERIES TRUST

By: \_\_\_\_\_

Title: \_\_\_\_\_

FIRST DATA INVESTOR SERVICES GROUP, INC.

By: \_\_\_\_\_

Title: \_\_\_\_\_

-17-

SCHEDULE A  
-----

LIST OF PORTFOLIOS

Third Avenue Value Portfolio

-18-

SCHEDULE B  
-----

DUTIES OF INVESTOR SERVICES GROUP

1. SERVICES RELATED TO PORTFOLIO VALUATION AND MUTUAL FUND ACCOUNTING

All financial data provided to, processed and reported by Investor Services Group under this Agreement shall be in United States dollars. Investor Services Group's obligation to convert, equate or deal in foreign currencies or values extends only to the accurate transposition of information received from the

various pricing and information services.

## A. Daily Accounting Services

1. Calculate Net Asset Value ("NAV") and Public Offering Price Per Share ("POP"):
  - o Update the daily market value of all assets held by the Fund using Investor Services Group's standard agents for pricing U.S. equity and bond securities as approved by the Board of Trustees. The U.S. equity pricing services are currently Reuters, Inc., Muller Data Corporation, J.J. Kenny Co., Inc. and Interactive Data Corporation ("IDC"). Muller Data Corporation, Dow Jones Markets (formerly Telerate Systems, Inc.), J.J. Kenny Co., Inc., Municipal Market Data and IDC are also used for bond and money market prices/yields. Bloomberg is available and used for price research.
  - o Enter limited number (less than 15) of manual prices supplied by the Fund and/or broker.
  - o Prepare NAV proof sheets. Review components of change in NAV for reasonableness.
  
  - o Review variance reporting on-line and in hard copy for price changes in individual securities using variance levels established by the Fund. Verify U.S. dollar security prices exceeding variance levels by notifying the Fund and pricing sources of noted variances.
  - o Review for ex-dividend items indicated by pricing sources; trace to Fund's general ledger for agreement.
  - o Communicate pricing information (NAV) to the Fund, Investor Services Group and electronically to NASDAQ.
  
2. Determine and Report Cash Availability to the Fund by approximately 9:30 a.m. Eastern Time:
  - o Receive daily cash and transaction statements from the Custodian by 8:30 a.m. Eastern time.
  - o Receive previous day shareholder activity reports from the Transfer Agent by 8:30 a.m. Eastern time.
  - o Fax hard copy cash availability calculations with all details to the Fund.
  - o Supply the Fund with 3-day cash projection report.
  - o Prepare daily bank cash reconciliations. Notify the Custodians and the Fund of any reconciling items.
  
3. Reconcile and Record All Expense Accruals:
  - o Accrue expenses based on budget supplied by the Fund either as percentage of net assets or specific dollar amounts.
  - o If applicable, monitor expense limitations established by the Fund.
  - o If applicable, accrue daily amortization of organizational expense.
  - o If applicable, complete daily accrual of 12b-1 expenses.

4. Verify and Record All Daily Income Accruals for Debt Issues:
  - o Review and verify all system generated Interest and Amortization reports.
  - o Establish unique security codes for bond issues to permit segregated trial balance income reporting.
5. Monitor Securities Held for Cash Dividends, Corporate Actions and Capital Changes such as splits, mergers, spin-offs, etc. and process appropriately.
  - o Monitor electronically received information from pricing vendors for all domestic securities.
  - o Review current daily security trades for dividend activity.
  - o Monitor collection and postings of corporate actions, dividends and interest.

-19-

6. Enter All Security Trades on Accounting System based on written instructions from the Fund's Advisor.
  - o Review system verification of trade and interest calculations.
  - o Verify settlement through statements supplied by the Custodian.
  - o Maintain security ledger transaction reporting.
  - o Maintain tax lot holdings.
  - o Determine realized gains or losses on security trades.
  - o Provide broker commission reporting.
7. Enter All Fund Share Transactions on Accounting System:
  - o Process activity identified on reports supplied by Investor Services Group.
  - o Verify settlement through statements supplied by the Custodians.
  - o Reconcile to Investor Services Group's report balances.
8. Prepare and Reconcile/Prove Accuracy of the Daily Trial Balance (listing all asset, liability, equity, income and expense accounts).
  - o Post manual entries to the general ledger.
  - o Post Custodian activity.
  - o Post security transactions.
  - o Post and verify system generated activity, i.e. income and expense accruals.
9. Review and Reconcile with Custodians' Statements:
  - o Verify all posted interest, dividends, expenses and shareholder and security payments/receipts, etc. (Discrepancies will be reported to the Custodians).

- o Post all cash settlement activity to the trial balance.
  - o Reconcile to ending cash balance accounts.
  - o Clear subsidiary reports with settled amounts.
  - o Track status of past due items and failed trades as reported by the Custodians.
10. Submission of Daily Accounting Reports to the Fund: (Additional reports readily available)
- o Fund Trial Balance.
  - o Portfolio Valuation (listing inclusive of holdings, costs, market values, unrealized appreciation/depreciation and percentage of portfolio comprised of each security).
  - o NAV Calculation Report
  - o Cash Availability
  - o 3-Day Cash Projection Report.

B. Monthly Accounting Services

1. Full Financial Statement Preparation (automated Statements of Assets and Liabilities, of Operations and of Changes in Net Assets) and submission to the Fund by 10th business day.
2. Submission of Monthly Automated Accounting Reports to the Fund (by 10th business day):
  - o Security Purchase/Sales Journal.
  - o Interest and Maturity Report.
  - o Brokers Ledger (Commission Report).
  - o Security Ledger Transaction Report with Realized Gains/Losses.
  - o Security Ledger Tax Lot Holdings Report.
  - o Additional reports available upon request.
3. Submit Reconciliation of Accounting Asset Listing to Custodian Asset Listing:
  - o Report any security balance discrepancies to the Custodian/the Fund.
4. Provide Monthly Analysis and Reconciliation of Additional Trial Balance Accounts, such as:

- o Security cost and realized gains/losses.
- o Interest/dividend receivable and income.
- o Payable/receivable for securities purchased and sold.
- o Payable/receivable for fund shares; issued and redeemed.
- o Expense payments and accruals analysis.

5. If appropriate, Prepare and Submit to the Fund (additional fees may apply):
  - o Income by state reporting.
  - o Standard Industry Code Valuation Report.
  - o Alternative Minimum Tax Income segregation schedule.
  - o SEC yield reporting (non-money market funds).

C. Annual (and Semi-Annual) Accounting Services

1. Annually assist and supply Fund's auditors with schedules supporting securities and shareholder transactions, income and expense accruals, etc. for each Portfolio during the year in accordance with standard audit assistance requirements.

2. Provide N-SAR Reporting (Accounting Questions) on a Semi-Annual Basis:

If applicable, answer the following items:

2, 12B, 20, 21, 22, 23, 28, 30A, 31, 32, 35, 36, 37, 43, 53, 55, 62, 63, 64B, 71, 72, 73, 74, 75 and 76

D. Accounts and Records

On each day the New York Stock Exchange is open for regular trading and subject to the proper receipt (via Oral or Written Instructions) by Investor Services Group of all information required to fulfill its duties under this Agreement, Investor Services Group will maintain and keep current the following Accounts and Records and any other records required to be kept pursuant to Rule 31a-1 of the 1940 Act relating to the business of the Portfolios in such form as may be mutually agreed upon between the Fund and Investor Services Group:

- (1) Net Asset Value Calculation Reports;
- (2) Cash Receipts Report;
- (3) Cash Disbursements Report;
- (4) Dividends Paid and Payable Schedule;
- (5) Purchase and Sales Journals - Portfolio Securities;
- (6) Subscription and Redemption Reports;
- (7) Security Ledgers - Transaction Report and Tax Lot Holdings Report;
- (8) Broker Ledger - Commission Report;
- (9) Daily Expense Accruals;
- (10) Daily Interest Accruals;
- (11) Daily Trial Balance;
- (12) Portfolio Interest Receivable and Income Reports;
- (13) Portfolio Dividend Receivable and Income Reports;
- (14) Listing of Portfolio Holdings - showing cost, market value and percentage of portfolio comprised of each security; and
- (15) Average Daily Net assets provided on monthly basis.

2. SERVICES RELATED TO SHAREHOLDERS AND SHARE TRANSACTIONS

## A. Shareholder File

1. Establish new accounts and enter demographic data into shareholder base. Includes in-house processing and National Securities Clearing Corporation ("NSCC") - Fund/SERV and/or Networking transmissions.

-21-

2. Create Customer Information File ("CIF") to link accounts within the Fund and across Portfolios within the Fund. Facilitates account maintenance, lead tracking, quality control, household mailings and combined statements.
3. 100% quality control of new account information including verification of initial investment.
4. Maintain account and customer file records based on shareholder request and routine quality review.
5. Maintain tax ID certification and Non Resident Alien ("NRA") records for each account, including backup withholding.
6. Provide written confirmation of address changes.
7. Produce shareholder statements for daily activity, dividends, on-request, interested party and periodic mailings.
8. Establish and maintain dealer file by Fund, including dealer, branch, representative number and name, and provide this information to the Fund.
9. Automated processing of dividends and capital gains with daily, monthly, quarterly or annual distributions. Payment options include reinvestment, directed payment to another fund, cash via mail, Fed wire or ACH.
10. Image all applications, account documents, data changes, correspondence, monetary transactions and other pertinent shareholder documents.

## B. Shareholder Services

1. Provide quality service through a dedicated group of highly trained NASD licensed customer service personnel, including phone, research and correspondence representatives.

2. Answer shareholder calls in timely fashion: provide routine account information, transactions details including direct and wire purchases, redemptions, exchanges, systematic withdrawals, pre-authorized drafts, Fund/SERV and wire order trades, problem solving and process telephone transactions.
3. Silent monitoring of telephone representative calls by the phone supervisor during live conversations to ensure exceptional customer service.
4. Record and maintain tape recordings of all shareholder calls for a six month period.
5. Phone supervisor produces daily management reports of shareholder calls which include tracking volume, call length, average wait time and abandoned call rates to ensure quality service, and provided to the Fund weekly.
6. Phone representatives will be trained through in-house training programs on the techniques of providing exceptional customer service.
7. Customer inquiries received by letter or telephone will be researched by a correspondence team. These inquiries include such items as account / customer file information, complete historical account information, stop payments on checks, transaction details and lost certificates.
8. Provide written correspondence in response to shareholder inquiries and requests. Whenever possible, unclear shareholder instructional letters are handled by a phone call to the shareholder from Investor Services Group's phone representatives to avoid delay in processing of the request.

-22-

#### C. Investment Processing

1. Initial investment.
2. Subsequent investments processed through lock box.
3. Pre-authorized investments ("PAD") through ACH system.
4. Government allotments through ACH system.
5. Wire order and NSCC - Fund/SERV trades.

6. Prepare and process daily bank deposit of shareholder investments.

D. Redemption Processing

1. Process mail redemption requests.
2. Process telephone redemption transactions.
3. Establish Systematic Withdrawal file and process automated transactions on monthly basis.
4. Provide wire order and NSCC - Fund/SERV trade processing.
5. Distribute redemption proceeds to shareholder by check, wire or ACH processing.

E. Exchange and Transfer Processing

1. Process legal transfers.
2. Process ACATS transfers.
3. Issue and cancel certificates.
4. Replace certificates through surety bonds (separate charge to shareholder).
5. Process exchange transactions (letter and/or telephone requests).

F. CASH MANAGEMENT SERVICES. (a) Investor Services Group shall establish demand deposit accounts (DDA's) with a cash management provider to facilitate the receipt of purchase payments and the processing of other Shareholder-related transactions. Investor Services Group shall retain any excess balance credits earned with respect to the amounts in such DDA's ("Balance Credits") after such Balance Credits are first used to offset any banking service fees charged in connection with banking services provided on behalf of the Fund. Balance Credits will be calculated and applied toward the Fund's banking service charges regardless of the withdrawal of DDA balances described in Section (b) below.

(b) DDA balances which cannot be forwarded on the day of receipt may be withdrawn on a daily basis and invested in U.S. Treasury and Federal Agency obligations, money market mutual funds, repurchase agreements, money market preferred securities (rated A or better), commercial paper (rated A1 or P1), corporate notes/bonds (rated A or better) and/or Eurodollar time deposits (issued by banks rated A or better). Investor Services Group bears the risk of loss on any such investment and shall retain any earnings generated thereby. Other similarly rated investment vehicles may be used, provided however, Investor Services Group shall first notify the Fund of any such change.

(c) Investor Services Group may facilitate the payment of distributions from the Fund which are made by check ("Distributions") through the "IPS Official Check" program. "IPS Official Check" is a product and service provided by Investor Services Group's affiliate, Integrated Payment Systems ("IPS"). IPS is licensed and regulated as an "issuer of payment instruments". In the event the IPS Official Check program is utilized, funds used to cover such Distributions shall be forwarded to and held by IPS. IPS may invest such funds while awaiting presentment of items for payment. In return the services provided by IPS, IPS imposes a per item charge which is identified in the Schedule of Out-of-Pocket Expenses attached hereto and shall retain, and share with Investor Services Group, the benefit of the revenue generated from its investment practices.

G. LOST SHAREHOLDERS. Investor Services Group shall perform such services as are required in order to comply with Rules 17a-24 and 17Ad-17 of the 34 Act (the Lost Shareholder Rules"), including, but not limited to those set forth below. Investor Services Group may, in its sole discretion, use the services of a third party to perform the some or all such services.

- o documentation of electronic search policies and procedures;
- o execution of required searches;
- o creation and mailing of confirmation letters;
- o taking receipt of returned verification forms;
- o providing confirmed address corrections in batch via electronic media;
- o tracking results and maintaining data sufficient to comply with the Lost Shareholder Rules; and
- o preparation and submission of data required under the Lost Shareholder Rules.

#### H. Settlement and Control

1. Daily review of processed shareholder transactions to assure input was processed correctly. Accurate trade activity figures passed to Investor Services Group.
2. Preparation of daily cash movement sheets to be passed to Investor Services Group and the Custodian Bank for use in determining the Fund's daily cash availability.
3. Prepare a daily share reconciliation which balances the shares on the Transfer Agent system to those on the books of the Fund.
4. Resolve any outstanding share or cash issues that are not cleared by

trade date + 2.

5. Process shareholder adjustments to also include the proper notification of any booking entries needed, as well as any necessary cash movement.
6. Settlement and review of the Fund's declared dividends and capital gains will include the following:
  - a. Review of record date report for accuracy of shares.
  - b. Prepare dividend settlement report after dividend is posted.
  - c. Verify the posting date shares, the rate used and the NAV price of reinvest date to ensure dividend was posted properly.
  - d. Distribute copies to Investor Services Group.
  - e. Prepare the checks prior to being mailed.
  - f. Send any dividends via wire, if requested.
  - g. Prepare cash movement sheets for the cash portion of the dividend payout on payable date.
7. Placement of stop payments on dividend and liquidation checks as well as the issuance of their replacements.
8. Maintain inventory control for stock certificates and dividend check form.

-24-

9. Aggregate tax filings for all Investor Services Group clients. Monthly deposits are made to the IRS for all taxes withheld from shareholder disbursements, distributions and foreign account distributions. Correspond with the IRS concerning any of the above issues.
10. Timely settlement and cash movement for all NSCC - Fund/SERV activity.

#### I. Year-End Processing

1. Maintain shareholder records in accordance with IRS notices for under-reporting and invalid tax IDs. This includes initiating 31% backup withholding and notifying shareholders of their tax status and the corrective action which is needed.
2. Conduct annual W-9 solicitation of all uncertificated accounts. Update account tax status to reflect backup withholding or certificated status depending on responses.
3. Conduct periodic W-8 solicitation of all non-resident alien shareholder accounts. Update account tax status with updated shareholder information and treaty rates for NRA tax.

4. Review IRS Revenue Procedures for changes in transaction and distribution reporting and specifications for the production of forms to ensure compliance.
5. Coordinate year-end activity with client. Activities include producing year-end statements, scheduling record dates for year-end dividends and capital gains, production of combined statements and printing of inserts to be mailed with tax forms.
6. Distribute dividend letter to Portfolios to sign off on all distributions paid year-to-date. Dates and rates must be authorized so that they can be used for reporting to the IRS.
7. Coordinate the ordering of forms and envelopes from vendors in preparation of tax reporting. Compare forms with IRS requirements to ensure accuracy. Upon receipt of forms and envelopes, allocate space for storage.
8. Prepare form flashes for the microfiche vendor. Test and oversee the production of fiche for year-end statements and tax forms.
9. Match and settle tax reporting totals to Fund records and on-line data from Transfer Agency System.
10. Produce Forms 1099R, 1099B, 1099Div, 5498, 1042S and year-end valuations. Quality assure forms before mailing to shareholders.
11. Monitor IRS deadlines and special events such as crossover dividends and prior year IRA contributions.
12. Prepare magnetic tapes and appropriate forms for the filing of all reportable activity to the IRS.

#### J. Client Services

1. An Account Manager is assigned to each relationship and is the liaison between the Fund and Investor Service Group. Responsibilities include scheduling of events, system enhancement implementation, special promotion / event implementation and follow-up and constant Fund interaction on daily operational issues. Specifically:
  - a. Scheduling of dividends, proxies, report mailings and special mailings.
  - b. Coordinating with the Fund the shipment of materials for scheduled mailings.
  - c. Acting as liaison between the Fund and support services for preparation of proofs and eventual printing of statement forms, certificates, proxy cards, envelopes etc.

- d. Handling all notification to the Fund regarding proxy tabulation through the meeting - coordinate scheduling of materials, including votes cards, tabulation letters and shareholder list to be available for the meeting.
- e. Ordering special reports, tapes and/or discs for special systems requests received.
- f. Implementing new operational procedures, i.e., check writing feature, load discounts, minimum waivers, sweeps, telephone options, PAD promotions etc.
- g. Coordinating with systems, services and operations, special events, i.e., mergers, new fund start-ups, small account liquidations, combined statements, household mailings, additional mail files.
- h. Preparing standard operating procedures and review prospectuses - coordinate implementation of suggested changes with the Fund. i. Acting as liaison between the Fund and Investor Services Group regarding all service and operational issues.

-26-

SCHEDULE C

-----

FEE SCHEDULE

FUND ACCOUNTING (PER DOMESTIC PORTFOLIO)

\$25,000 minimum to \$20 million of average net assets, plus  
 .0003 on the next \$30 million of average net assets  
 .0002 on the next \$50 million of average net assets  
 .0001 over \$100 million of average net assets

TRANSFER AGENCY

\$2,000 per month based on daily activity in an omnibus account. Assumes no printing of account statements

FUND/SERV Processing (not applicable)

Networking Processing (not applicable)

Lost Shareholder Search/Reporting: \$2.75 per account search\*  
\* The per account search fee shall be waived until June 2000 so long as the Fund retains Keane Tracers, Inc. ("KTI") to provide the Fund with KTI's "In-Depth Research Program" services.

#### MISCELLANEOUS CHARGES

The Fund shall be charged for the following products and services as applicable:

- o Ad hoc reports
- o Ad hoc SQL time
- o COLD Storage
- o Digital Recording
- o Banking Services, including incoming and outgoing wire charges
- o Microfiche/microfilm production
- o Magnetic media tapes and freight
- o Manual Pricing
- o Materials for Rule 15c-3 Presentations
- o Pre-Printed Stock, including business forms, certificates, envelopes, checks and stationary

#### FEE ADJUSTMENTS

After the one year anniversary of the effective date of this Agreement, Investor Services Group may adjust the fees described in the above sections once per calendar year, upon thirty (30) days

-27-

prior written notice in an amount not to exceed the cumulative percentage increase in the Consumer Price Index for All Urban Consumers (CPI-U) U.S. City Average, All items (unadjusted) - (1982-84=100), published by the U.S. Department of Labor since the last such adjustment in the Client's monthly fees (or the Effective Date absent a prior such adjustment).

#### PROGRAMMING COSTS (TO THE EXTENT REQUESTED BY THE FUND)

The following programming rates are subject to an annual 5% increase after the one year anniversary of the effective date of this Agreement.

(a) Dedicated Team: Programmer: \$100,000 per annum

|     |   |                                 |
|-----|---|---------------------------------|
|     | BSA:                                      | \$ 85,000 per annum             |
|     | Tester:                                   | \$ 65,000 per annum             |
| (b) | System Enhancements (Non Dedicated Team): | \$ 150.00 per/hr per programmer |

-28-

SCHEDULE D

-----

OUT-OF-POCKET EXPENSES

The Fund shall reimburse Investor Services Group monthly for applicable out-of-pocket expenses, including, but not limited to the following items:

- o Postage - direct pass through to the Fund
- o Telephone and telecommunication costs requested by the Fund, including all lease, maintenance and line costs
- o Proxy solicitations, mailings and tabulations
- o Shipping, Certified and Overnight mail and insurance
- o Terminals, communication lines, printers and other equipment and any expenses incurred in connection with such terminals and lines requested by the Fund
- o Duplicating services
- o Distribution and Redemption Check Issuance
- o Courier services
- o Federal Reserve charges for check clearance
- o Overtime, as approved by the Fund
- o Temporary staff, as approved by the Fund
- o Travel and entertainment, as approved by the Fund
- o Record retention, retrieval and destruction costs, including, but not limited to exit fees charged by third party record keeping vendors
- o Third party audit reviews
- o Pricing services (or services used to determine Fund NAV)
- o Vendor set-up charges for Blue Sky
- o Blue Sky filing or registration fees
- o EDGAR filing fees
- o Vendor pricing comparison
- o Such other expenses as are agreed to by Investor Services Group and the Fund

The Fund agrees that postage and mailing expenses will be paid on the day of or prior to mailing as agreed with Investor Services Group. In addition,

the Fund will promptly reimburse Investor Services Group for any other unscheduled expenses incurred by Investor Services Group whenever the Fund and Investor Services Group mutually agree that such expenses are not otherwise properly borne by Investor Services Group as part of its duties and obligations under the Agreement.

-29-

## ADMINISTRATION AGREEMENT

THIS ADMINISTRATION AGREEMENT, dated as of this 10th day of September, 1999, the "Agreement"), between EQSF ADVISERS, INC., a New York corporation ("EQSF") and THIRD AVENUE TRUST (the "Fund"), an open-end management investment company under the Investment Company Act of 1940, as amended (the "1940 Act").

WHEREAS, the Fund desires to retain EQSF to render certain administrative services with respect to each investment portfolio listed in Schedule A hereto, as the same may be amended from time to time by the parties hereto (collectively, the "Portfolios"), and EQSF is willing to render such services;

WITNESSETH:

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained, it is agreed between the parties hereto as follows:

### Article 1 DEFINITIONS.

1.1 Whenever used in this Agreement, the following words and phrases, unless the context otherwise requires, shall have the following meanings:

(a) "Articles of Incorporation" shall mean the Articles of Incorporation, Declaration of Trust, or other similar organizational document as the case may be, of the Fund as the same may be amended from time to time.

(b) "Authorized Person" shall be deemed to include (i) any officer of the Fund; or (ii) any person, whether or not such person is an officer or employee of the Fund, duly authorized to give Oral Instructions or Written Instructions on behalf of the Fund as indicated in writing to EQSF from time to time.

(c) "Board Members" shall mean the Directors or Trustees of the governing body of the Fund, as the case may be.

(d) "Board of Directors" shall mean the Board of Directors or Board of Trustees of the Fund, as the case may be.

(e) "Commission" shall mean the Securities and Exchange Commission.

(f) "Custodian" refers to any custodian or subcustodian of securities and other property which the Fund may from time to time

deposit, or cause to be deposited or held under the name or account of such a custodian pursuant to a Custody Agreement.

-1-

(g) "1933 Act" shall mean the Securities Act of 1933 and the rules and regulations promulgated thereunder, all as amended from time to time.

(h) "1940 Act" shall mean the Investment Company Act of 1940 and the rules and regulations promulgated thereunder, all as amended from time to time.

(i) "Oral Instructions" shall mean instructions, other than Written Instructions, actually received by EQSF from a person reasonably believed by EQSF to be an Authorized Person.

(j) "Portfolio" shall mean each separate series of shares offered by the Fund representing interests in a separate portfolio of securities and other assets.

(k) "Prospectus" shall mean the most recently dated Fund Prospectus and Statement of Additional Information, including any supplements thereto if any, which has become effective under the 1933 Act and the 1940 Act.

(l) "Shares" refers collectively to such shares of capital stock or beneficial interest, as the case may be, or class thereof, of each respective Portfolio of the Fund as may be issued from time to time.

(m) "Shareholder" shall mean a record owner of Shares of each respective Portfolio of the Fund.

(n) "Written Instructions" shall mean a written communication signed by a person reasonably believed by EQSF to be an Authorized Person and actually received by EQSF. Written Instructions shall include manually executed originals and authorized electronic transmissions, including telefacsimile of a manually executed original or other process.

## Article 2 APPOINTMENT OF EQSF.

The Fund hereby appoints EQSF to act as Administrator of the Fund on the terms set forth in this Agreement. EQSF accepts such appointment and agrees to render the services herein set forth for the compensation herein provided.

Article 3 DUTIES OF EQSF.

3.1 EQSF shall be responsible for the following: performing the customary services of an Administrator, including treasury and blue sky for the Fund, as more fully described in the written schedule of Duties of EQSF annexed hereto as Schedule B and incorporated herein, and subject to the supervision and direction of the Fund.

3.2 In performing its duties under this Agreement, EQSF: (a) will act in accordance with the Articles of Incorporation, By-Laws, Prospectuses and with the Oral Instructions and

-2-

Written Instructions of the Fund and will conform to and comply with the requirements of the 1940 Act and all other applicable federal or state laws and regulations; and (b) will consult with legal counsel to the Fund, as necessary and appropriate. Furthermore, EQSF shall not, pursuant to this Agreement, have or be required to have any authority to supervise the investment or reinvestment of the securities or other properties which comprise the assets of the Fund or any of its Portfolios and shall not provide any investment advisory services to the Fund or any of its Portfolios.

3.3 In addition to the duties set forth herein, EQSF shall perform such other duties and functions, and shall be paid such amounts therefor, as may from time to time be agreed upon in writing between the Fund and EQSF.

Article 4 RECORDKEEPING AND OTHER INFORMATION.

4.1 EQSF shall create and maintain all records required of it pursuant to its duties hereunder and as set forth in Schedule B in accordance with all applicable laws, rules and regulations, including records required by Section 31(a) of the 1940 Act. Where applicable, such records shall be maintained by EQSF for the periods and in the places required by Rule 31a-2 under the 1940 Act.

4.2 To the extent required by Section 31 of the 1940 Act, EQSF agrees that all such records prepared or maintained by EQSF relating to the services to be performed by EQSF hereunder are the property of the Fund and will be preserved, maintained and made available in accordance with such section, and will be surrendered promptly to the Fund on and in accordance with the Fund's request.

Article 5 FUND INSTRUCTIONS.

5.1 EQSF will have no liability when properly acting upon Written or Oral Instructions reasonably believed to have been executed or orally communicated by an Authorized Person and will not be held to have any notice of any change of authority of any person until receipt of a Written Instruction thereof from the Fund.

5.2 At any time, EQSF may request Written Instructions from the Fund and may seek advice from legal counsel for the Fund, or its own legal counsel, with respect to any matter arising in connection with this Agreement, and it shall not be liable for any action properly taken or not taken or suffered by it in good faith in accordance with such Written Instructions or in accordance with the opinion of counsel for the Fund or for EQSF. Written Instructions requested by EQSF will be provided by the Fund within a reasonable period of time.

5.3 EQSF, its officers, agents or employees, shall accept Oral Instructions or Written Instructions given to them by any person representing or acting on behalf of the Fund only if said representative is an Authorized Person. The Fund agrees that all Oral Instructions shall be followed within one business day by confirming Written Instructions, and that the Fund's failure to so confirm shall not impair in any respect EQSF's right to rely on Oral Instructions.

-3-

## Article 6 COMPENSATION.

6.1 EQSF will from time to time employ or associate with itself such person or persons as EQSF may believe to be particularly suited to assist it in performing services under this Agreement. Such person or persons may be officers and employees who are employed by both EQSF and the Fund. The compensation of such person or persons shall be paid by EQSF and no obligation shall be incurred on behalf of the Fund in such respect.

6.2 EQSF shall not be required to pay any of the following expenses incurred by the Fund: membership dues in the Investment Company Institute or any similar organization; investment advisory expenses; costs of printing and mailing stock certificates, prospectuses, reports and notices; interest on borrowed money; brokerage commissions; stock exchange listing fees; taxes and fees payable to Federal, state and other governmental agencies; fees of Board Members of the Fund who are not affiliated with EQSF; outside auditing expenses; outside legal expenses; Blue Sky registration or filing fees; or other expenses not specified in this Section 6.2 which are properly payable by the Fund. EQSF shall not be required to pay any Blue Sky registration or filing fees unless and until it has received the amount of such fees from the Fund.

6.3 The Fund will compensate EQSF for the performance of its

obligations hereunder in accordance with the fees and other charges set forth in the written Fee Schedule annexed hereto as Schedule C and incorporated herein.

6.4 In addition to those fees set forth in Section 6.3 above, the Fund agrees to pay, and will be billed separately for, out-of-pocket expenses actually incurred by EQSF in the performance of its duties hereunder. Out-of-pocket expenses shall include, but shall not be limited to, the items specified in the written schedule of out-of-pocket charges annexed hereto as Schedule D and incorporated herein. Schedule D may be modified by written agreement between the parties. Unspecified out-of-pocket expenses shall be limited to those out-of-pocket expenses reasonably incurred by EQSF in the performance of its obligations hereunder.

6.5 The Fund agrees to pay all fees, charges and out-of-pocket expenses to EQSF by Federal Funds Wire within fifteen (15) business days following the receipt of the respective invoice. In addition, with respect to all fees under this Agreement, EQSF may charge a service fee equal to the lesser of (i) one and one half percent (1 1/2%) per month or (ii) the highest interest rate legally permitted on any past due invoiced amounts, provided however, the foregoing service fee shall not apply if the Fund in good faith legitimately disputes any invoice amount in which case the Fund shall do the following within thirty (30) days of the postmark date: (a) pay EQSF the undisputed amount of the invoice; and (b) provide EQSF a detailed written description of the disputed amount and the basis for the Administrator's dispute with such amount. In addition, the Fund shall cooperate with EQSF in resolving disputed invoice amounts and then promptly paying such amounts determined to be due.

6.6 Any compensation agreed to hereunder may be adjusted from time to time by attaching to Schedule C a revised Fee Schedule executed and dated by the parties hereto.

-4-

Article 7 [RESERVED]

Article 8 FUND ACCOUNTING SYSTEM.

8.1 EQSF shall retain title to and ownership of any and all data bases, computer programs, screen formats, report formats, interactive design techniques, derivative works, inventions, discoveries, patentable or copyrightable matters, concepts, expertise, patents, copyrights, trade secrets, and other related legal rights utilized by EQSF in connection with the services provided by EQSF to the Fund herein (the "EQSF System").

8.2 EQSF hereby grants to the Fund a limited license to the EQSF System for the sole and limited purpose of having EQSF provide the services

contemplated hereunder and nothing contained in this Agreement shall be construed or interpreted otherwise and such license shall immediately terminate with the termination of this Agreement.

8.3 In the event that the Fund, including any affiliate or agent of the Fund or any third party acting on behalf of the Fund is provided with direct access to the EQSF System, such direct access capability shall be limited to direct entry to the EQSF System by means of on-line mainframe terminal entry or PC emulation of such mainframe terminal entry and any other non-conforming method of transmission of information to the EQSF System is strictly prohibited without the prior written consent of EQSF.

Article 9 REPRESENTATIONS AND WARRANTIES.

9.1 EQSF represents and warrants to the Fund that:

(a) it is a corporation duly organized, validly existing and in good standing under the laws of the State of New York;

(b) it is empowered under applicable laws and by its Articles of Incorporation and By-Laws to enter into and perform this Agreement;

(c) all requisite corporate proceedings have been taken to authorize it to enter into this Agreement; and

(d) it has and will continue to have access to the necessary facilities, equipment and personnel to perform its duties and obligations under this Agreement.

9.2 The Fund represents and warrants to EQSF that:

(a) it is duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is organized;

-5-

(b) it is empowered under applicable laws and by its Articles of Incorporation and By-Laws to enter into this Agreement; and

(c) all corporate proceedings required have been taken to authorize it to enter into this Agreement.

Article 10 INDEMNIFICATION.

10.1 The Fund shall indemnify and hold EQSF harmless from and against

any and all claims, costs, expenses (including reasonable attorneys' fees), losses, damages, charges, payments and liabilities of any sort or kind which may be asserted against EQSF or for which EQSF may be held to be liable in connection with this Agreement or EQSF's performance hereunder (a "Claim"), unless such Claim resulted from a negligent act or omission to act or bad faith by EQSF in the performance of its duties hereunder.

10.2 EQSF shall indemnify and hold the Fund harmless from and against any and all claims, costs, expenses (including reasonable attorneys' fees), losses, damages, charges, payments and liabilities of any sort or kind which may be asserted against the Fund or for which the Fund may be held to be liable in connection with this Agreement (a "Claim"), provided that such Claim resulted from a negligent act or omission to act, bad faith, willful misfeasance or reckless disregard by EQSF in the performance of its duties hereunder.

10.3 In any case in which one party (the "Indemnifying Party") may be asked to indemnify or hold the other party (the "Indemnified Party") harmless, the Indemnified Party will notify the Indemnifying Party promptly after identifying any situation which it believes presents or appears likely to present a claim for indemnification against the Indemnified Party although the failure to do so shall not prevent recovery by the Indemnified Party and shall keep the Indemnifying Party advised with respect to all developments concerning such situation. The Indemnifying Party shall have the option to defend the Indemnified Party against any Claim which may be the subject of this indemnification, and, in the event that the Indemnifying Party so elects, such defense shall be conducted by counsel chosen by the Indemnifying Party and reasonably satisfactory to the Indemnified Party, and thereupon the Indemnifying Party shall take over complete defense of the Claim and the Indemnified Party shall sustain no further legal or other expenses in respect of such Claim. The Indemnified Party will not confess any Claim or make any compromise in any case in which the Indemnifying Party will be asked to provide indemnification, except with the Indemnifying Party's prior written consent. The obligations of the parties hereto under this Article 10 shall survive the termination of this Agreement.

10.4 Any claim for indemnification under this Agreement must be made prior to the earlier of:

(a) one year after the Indemnified Party becomes aware of the event for which indemnification is claimed; or

-6-

(b) one year after the earlier of the termination of this Agreement or the expiration of the term of this Agreement.

10.4 Except for remedies that cannot be waived as a matter of law (and injunctive or provisional relief), the provisions of this Article 10 shall be EQSF's sole and exclusive remedy for claims or other actions or proceedings to which the Fund's indemnification obligations pursuant to this Article 10 may apply.

Article 11 STANDARD OF CARE.

11.1 EQSF shall at all times act in good faith and agrees to use its best efforts within commercially reasonable limits to ensure the accuracy of all services performed under this Agreement, but assumes no responsibility for loss or damage to the Fund unless said errors are caused by EQSF's own negligence, bad faith or willful misconduct or that of its employees.

11.2 Neither party may assert any cause of action against the other party under this Agreement that accrued more than three (3) years prior to the filing of the suit (or commencement of arbitration proceedings) alleging such cause of action.

11.3 Each party shall have the duty to mitigate damages for which the other party may become responsible.

11.5 Without in any way limiting the foregoing, in the event EQSF shall provide Blue Sky services to the Fund, EQSF shall have no liability for failing to file on a timely basis any material to be provided by the Fund or its designee that it has not received on a timely basis from the Fund or its designee, nor shall EQSF have any responsibility to review the accuracy or adequacy of materials it receives from the Fund or its designee for filing or bear any liability arising out of the timely filing of such materials; nor shall EQSF have any liability for monetary damages for the sale of securities in jurisdictions where Shares are not properly registered, or in jurisdictions where Shares are sold in excess of the lawfully registered amount unless such failure of proper registration or excess sales is due to the willful misfeasance, bad faith or negligence of EQSF and provided EQSF has requested such information from the Fund in a timely fashion.

Article 12 CONSEQUENTIAL DAMAGES.

NOTWITHSTANDING ANYTHING IN THIS AGREEMENT TO THE CONTRARY, IN NO EVENT SHALL EITHER PARTY, ITS AFFILIATES OR ANY OF ITS OR THEIR DIRECTORS, OFFICERS, EMPLOYEES, AGENTS OR SUBCONTRACTORS BE LIABLE FOR INCIDENTAL, INDIRECT OR CONSEQUENTIAL DAMAGES.

As used in the preceding paragraph "incidental, indirect or consequential damages" means damages which do not flow directly from the act of the party or which arise from the

intervention of special circumstances not ordinarily predictable, and does NOT include direct damages which arise naturally or ordinarily from a breach of contract.

#### Article 13 TERM AND TERMINATION.

13.1 This Agreement shall be effective on the date first written above and shall continue for a period of three (3) years (the "Initial Term").

13.2 Upon the expiration of the Initial Term, this Agreement shall automatically renew for successive terms of one (1) year ("Renewal Terms") each, unless the Fund or EQSF provides written notice to the other of its intent not to renew. Such notice must be received not less than ninety (90) days and not more than one-hundred eighty (180) days prior to the expiration of the Initial Term or the then current Renewal Term.

13.3 In the event a termination notice is given by the Fund, all expenses associated with movement of records and materials and conversion thereof to a successor Fund will be borne by the Fund.

13.4 If a party hereto is guilty of a material failure to perform its duties and obligations hereunder (a "Defaulting Party") the other party (the "Non-Defaulting Party") may give written notice thereof to the Defaulting Party, and if such material breach shall not have been remedied within thirty (30) days after such written notice is given, then the Non-Defaulting Party may terminate this Agreement by giving thirty (30) days written notice of such termination to the Defaulting Party. If the material failure is one for which the Non-Defaulting Party has previously given the Defaulting Party notice as provided in the previous sentence, the Agreement may be terminated by the Non-Defaulting Party upon thirty (30) days written notice without giving the Defaulting Party a second opportunity to cure such material failure. If EQSF is the Non-Defaulting Party, its termination of this Agreement shall not constitute a waiver of any other rights or remedies of EQSF with respect to services performed prior to such termination of rights of EQSF to be reimbursed for out-of-pocket expenses. In all cases, termination by the Non-Defaulting Party shall not constitute a waiver by the Non-Defaulting Party of any other rights it might have under this Agreement or otherwise against the Defaulting Party.

13.5 Notwithstanding anything contained in this Agreement to the contrary and except as provided in Section 13.4, should the Fund desire to move any of the services provided by EQSF hereunder to a successor service provider prior to the expiration of the then current Initial or Renewal Term, or should the Fund or any of its affiliates take any action which would result in EQSF ceasing to provide administration services to the Fund or the Fund prior to the expiration of the Initial or any Renewal Term, EQSF shall make a good faith effort and use all commercially reasonable efforts to facilitate the conversion on such prior date, however, there can be no guarantee that EQSF will be able to facilitate a conversion of services on such prior date. In connection with the foregoing, should services be converted to a successor service provider or

should the Fund or any of its affiliates take any action which would result in EQSF ceasing to provide administration services to the Fund or the Fund prior

-8-

to the expiration of the Initial or any Renewal Term, the payment of fees to EQSF as set forth herein shall be accelerated to a date prior to the conversion or termination of services and calculated as if the services had remained with EQSF until the expiration of the then current Initial or Renewal Term and calculated at the asset and/or Shareholder account levels, as the case may be, on the date notice of termination was given to EQSF.

#### Article 14 ADDITIONAL PORTFOLIOS

14.1 In the event that the Fund establishes one or more Portfolios in addition to those identified in Schedule A, with respect to which the Fund desires to have EQSF render services as Administrator under the terms hereof, the Fund shall so notify EQSF in writing, and if EQSF agrees in writing to provide such services, Schedule A shall be amended to include such additional Portfolios. If after good faith negotiations, the parties are unable to agree upon the conditions upon which EQSF will service the new Portfolio, either party shall have the right to terminate this Agreement upon sixty (60) days written notice to the other party.

#### Article 15 CONFIDENTIALITY.

15.1 The parties agree that the Proprietary Information (defined below) and the contents of this Agreement (collectively "Confidential Information") are confidential information of the parties and their respective licensors. The Fund and EQSF shall exercise at least the same degree of care, but not less than reasonable care, to safeguard the confidentiality of the Confidential Information of the other as it would exercise to protect its own confidential information of a similar nature. The Fund and EQSF shall not duplicate, sell or disclose to others the Confidential Information of the other, in whole or in part, without the prior written permission of the other party. The Fund and EQSF may, however, disclose Confidential Information to their respective parent corporation, their respective affiliates, their subsidiaries and affiliated companies and employees, provided that each shall use reasonable efforts to ensure that the Confidential Information is not duplicated or disclosed in breach of this Agreement. The Fund and EQSF may also disclose the Confidential Information to independent contractors, auditors, and professional advisors, provided they first agree in writing to be bound by the confidentiality obligations substantially similar to this Section 15.1. Notwithstanding the previous sentence, in no event shall either the Fund or EQSF disclose the Confidential Information to any competitor of the other without specific, prior written consent.

15.2 Proprietary Information means:

(a) any data or information that is competitively sensitive material, and not generally known to the public, including, but not limited to, information about product plans, marketing strategies, finance, operations, customer relationships, customer profiles, sales estimates, business plans, portfolio holdings and internal performance results relating to the past, present or future business activities of the Fund or EQSF, their respective subsidiaries and affiliated companies and the customers, clients and suppliers of any of them;

-9-

(b) any scientific or technical information, design, process, procedure, formula, or improvement that is commercially valuable and secret in the sense that its confidentiality affords the Fund or EQSF a competitive advantage over its competitors; and

(c) all confidential or proprietary concepts, documentation, reports, data, specifications, computer software, source code, object code, flow charts, databases, inventions, know-how, show-how and trade secrets, whether or not patentable or copyrightable.

15.3 Confidential Information includes, without limitation, all documents, inventions, substances, engineering and laboratory notebooks, drawings, diagrams, specifications, bills of material, equipment, prototypes and models, and any other tangible manifestation of the foregoing of either party which now exist or come into the control or possession of the other.

15.4 The obligations of confidentiality and restriction on use herein shall not apply to any Confidential Information that a party proves:

(a) Was in the public domain prior to the date of this Agreement or subsequently came into the public domain through no fault of such party; or

(b) Was lawfully received by the party from a third party free of any obligation of confidence to such third party; or

(c) Was already in the possession of the party prior to receipt thereof, directly or indirectly, from the other party; or

(d) Is required to be disclosed in a judicial or administrative proceeding after all reasonable legal remedies for maintaining such information in confidence have been exhausted including, but not limited

to, giving the other party as much advance notice of the possibility of such disclosure as practical so the other party may attempt to stop such disclosure or obtain a protective order concerning such disclosure; or

(e) Is subsequently and independently developed by employees, consultants or agents of the party without reference to the Confidential Information disclosed under this Agreement.

Article 16           FORCE MAJEURE; EXCUSED NON-PERFORMANCE.

No party shall be liable for any default or delay in the performance of its obligations under this Agreement if and to the extent such default or delay is caused, directly or indirectly, by (i) fire, flood, elements of nature or other acts of God; (ii) any outbreak or escalation of hostilities, war, riots or civil disorders in any country, (iii) any act or omission of the other party or any governmental authority; (iv) any labor disputes (provided that the employees' demands are not reasonable and within the party's power to satisfy); or (v) nonperformance by a third party or

-10-

any similar cause beyond the reasonable control of such party, including without limitation, failures or fluctuations in telecommunications or other equipment. In addition, no party shall be liable for any default or delay in the performance of its obligations under this Agreement if and to the extent that such default or delay is caused, directly or indirectly, by the actions or inactions of the other party. In any such event, the non-performing party shall be excused from any further performance and observance of the obligations so affected only for as long as such circumstances prevail and such party continues to use commercially reasonable efforts to recommence performance or observance as soon as practicable.

Article 17           ASSIGNMENT AND SUBCONTRACTING.

This Agreement, its benefits and obligations shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. This Agreement may not be assigned or otherwise transferred by either party hereto, without the prior written consent of the other party, which consent shall not be unreasonably withheld; provided, however, that EQSF may, in its sole discretion, assign all its right, title and interest in this Agreement to an affiliate, parent or subsidiary, or to the purchaser of substantially all of its business. EQSF may, in its sole discretion, engage subcontractors to perform any of the obligations contained in this Agreement to be performed by EQSF but shall not be relieved of its obligations and responsibilities hereunder by reason of such engagement.

Article 18      ARBITRATION.

18.1 Any claim or controversy arising out of or relating to this Agreement, or breach hereof, shall be settled by arbitration administered by the American Arbitration Association in New York, New York in accordance with its applicable rules, except that the Federal Rules of Evidence and the Federal Rules of Civil Procedure with respect to the discovery process shall apply.

18.2 The parties hereby agree that judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction.

18.3 The parties acknowledge and agree that the performance of the obligations under this Agreement necessitates the use of instrumentalities of interstate commerce and, notwithstanding other general choice of law provisions in this Agreement, the parties agree that the Federal Arbitration Act shall govern and control with respect to the provisions of this Article 18.

Article 19      NOTICE.

Any notice or other instrument authorized or required by this Agreement to be given in writing to the Fund or EQSF, shall be sufficiently given if addressed to that party and received by it at its office set forth below or at such other place as it may from time to time designate in writing.

-11-

To the Fund:

767 Third Avenue  
New York, New York 10017  
Attention: Ian M. Kirschner, General Counsel

To EQSF:

767 Third Avenue  
New York, New York 10017  
Attention: David Barse

Article 20      GOVERNING LAW/VENUE.

The laws of the State of New York, excluding the laws on conflicts of laws, shall govern the interpretation, validity, and enforcement of this agreement.

Article 21      COUNTERPARTS.

This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original; but such counterparts shall, together, constitute only one instrument.

Article 22 CAPTIONS.

The captions of this Agreement are included for convenience of reference only and in no way define or limit any of the provisions hereof or otherwise affect their construction or effect.

Article 23 PUBLICITY.

Neither EQSF nor the Fund shall release or publish news releases, public announcements, advertising or other publicity relating to this Agreement or to the transactions contemplated by it without the prior review and written approval of the other party; provided, however, that either party may make such disclosures as are required by legal, accounting or regulatory requirements after making reasonable efforts in the circumstances to consult in advance with the other party.

Article 24 RELATIONSHIP OF PARTIES/NON-SOLICITATION.

24.1 The parties agree that they are independent contractors and not partners or co-venturers and nothing contained herein shall be interpreted or construed otherwise.

Article 25 ENTIRE AGREEMENT; SEVERABILITY.

25.1 This Agreement, including Schedules, Addenda, and Exhibits hereto, constitutes the entire Agreement between the parties with respect to the subject matter hereof and supersedes all prior and contemporaneous proposals, agreements, contracts, representations, and

-12-

understandings, whether written or oral, between the parties with respect to the subject matter hereof. No change, termination, modification, or waiver of any term or condition of the Agreement shall be valid unless in writing signed by each party. No such writing shall be effective as against EQSF unless said writing is executed by an officer of EQSF. A party's waiver of a breach of any term or condition in the Agreement shall not be deemed a waiver of any subsequent breach of the same or another term or condition.

25.2 The parties intend every provision of this Agreement to be severable. If a court of competent jurisdiction determines that any term or provision is illegal or invalid for any reason, the illegality or invalidity

shall not affect the validity of the remainder of this Agreement. In such case, the parties shall in good faith modify or substitute such provision consistent with the original intent of the parties. Without limiting the generality of this paragraph, if a court determines that any remedy stated in this Agreement has failed of its essential purpose, then all other provisions of this Agreement, including the limitations on liability and exclusion of damages, shall remain fully effective.

-13-

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be duly executed and delivered by their duly authorized officers as of the date first written above.

EQSF ADVISERS, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

THIRD AVENUE VARIABLE SERIES TRUST

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

-14-

SCHEDULE A

-----

LIST OF PORTFOLIOS

Third Avenue Value Portfolio

-15-

SCHEDULE B

-----

DUTIES OF EQSF

SERVICES RELATED TO ADMINISTRATION

-----

PROCESSING AND PAYMENT OF BILLS

- o Centralized contact to receive all invoices for Fund operating expenses.
- o Voucher invoices for authorization / money movement instructions
- o Distribution of approved vouchers for payment / recording
- o Monitoring bank statement for appropriate money movement and timing
- o Ensure proper wire instructions for expenses paid by wire transfer
- o Coordinate mailing of checks to various vendors

PREPARATION OF SEMI-ANNUAL REPORTS AND ANNUAL REPORTS

- o Preparation of Schedule of Investments, Statements of Assets and Liabilities, Operations and Changes, Financial Highlights and Footnotes to Financial Statements.
- o Contact for auditors regarding questions / comments relating to the Financial Statements / process.
- o Timely delivery of properly formatted tape of registered shareholders to ADP for quarterly report mailing.
- o Centralized contact for receipt of president's letter, audit opinion letter and letter of internal controls.
- o Centralized area to receive and implement comments and changes.
- o Coordination and timing with printer.
- o Review content of draft copies prior to printing.

- o Average Net Assets / Ratio Analysis.

#### MANAGEMENT REPORTING

- o Daily, Schedule of Investment Report delivered electronically

#### COMPLETION AND FILING OF N-SARS

- o Preparation of N-SARs semi-annually.
- o Preparation of Financial Data Sheet to facilitate EDGAR filing.
- o Filing of N-SARs.

#### STATE AND LOCAL TAX INFORMATION

- o Preparation of 1099-DIV insert cards.
- o Coordination with printer, mailroom for 1099-DIV insert cards.
- o Review of 1099-DIV insert prior to printing.

#### REGULATORY COMPLIANCE

-16-

#### Compliance - Federal Investment Company Act of 1940

1. Review, report and renew
  - a. investment advisory contracts
  - b. fidelity bond
  - c. underwriting contracts
  - d. administration contracts
  - e. accounting contracts
  - f. custody administration contracts
  - g. transfer agent and stockholder services
2. Filings
  - a. N-1A (prospectus), post-effective amendment and supplements ("stickers")
  - b. 24f-2 indefinite registration of shares
  - c. filing fidelity bond under 17g-1
  - d. filing stockholder reports under 30b2-1
3. Annual updates of biographical information and questionnaires for Trustees and Officers

#### COPORATE BUSINESS AND STOCKHOLDER/PUBLIC INFORMATION

##### A. Trustees/Management

1. Preparation of meetings
  - a. agendas - all necessary items of compliance
  - b. arrange and conduct meetings
  - c. prepare minutes of meetings

- d. keep attendance records
- e. maintain corporate records/minute book

B. Coordinate Proposals

- 1. Printers
- 2. Auditors
- 3. Literature fulfillment
- 4. Insurance

B. Maintain Corporate Calendars and Files

C. Release Corporate Information

- 1. To stockholders
- 2. To financial and general press
- 3. To industry publications
  - a. distributions (dividends and capital gains)
  - b. tax information
  - c. changes to prospectus
  - d. letters from management

-17-

- e. funds' performance

D. Communications to Stockholders

- 1. Coordinate printing and distribution of annual, semi-annual reports and prospectus

FINANCIAL AND MANAGEMENT REPORTING

A. Income and Expenses

- 1. Monitoring of expenses and expense accruals (monthly)
- 2. Checking Account Reconciliation (monthly)
- 3. Calculation of advisory fee and reimbursements to Fund (if applicable)
- 4. Calculation of average net assets.

B. Distributions to Stockholders

- 1. Projections of distribution amounts
- 2. Calculations of dividends and capital gain distributions (in conjunction with the Funds and their auditors)
  - a. compliance with income tax provisions
  - b. compliance with excise tax provisions
  - c. compliance with Investment Company Act of 1940

C. Financial Reporting

- 1. Liaison between fund management, independent auditors and printers for stockholder reports

2. Preparation of Quarterly Reports
  3. Preparation of financial statements for required SEC post-effective filings (if applicable)
  4. Portfolio turnover calculations
  5. Calculation of Fund performance
- D. Subchapter M Compliance (monthly)
1. Asset diversification test
  2. Short/short test
- E. Other Financial Analyses
1. Upon request from fund management, other budgeting and analyses can be constructed to meet specific needs (additional fees may apply)
  2. Sales information, portfolio turnover (monthly)
  3. Assist independent auditors on return of capital presentation, excise tax calculation
  4. Performance (total return) calculation (monthly)
  5. IRS Form 1099 Miscellaneous preparation, mailing & IRS filing

-18-

6. Analysis of interest derived from various Government obligations (annual) (if interest income was distributed in a calendar year)

- F. Review and Monitoring Functions (monthly)
1. Review expense and reclassification entries to ensure proper update
  2. Perform various reviews to ensure accuracy of subscription/liquidation schedules, Accounting (the monthly expense analysis) and Custody (review of daily bank statements to ensure accurate money movement).
  3. Review accruals and expenditures where applicable

-19-

## SCHEDULE C

-----  
FEE SCHEDULE

For the services to be rendered, the facilities to be furnished and the payments to be made by EQSF, as provided for in this Agreement, the Fund will pay EQSF on the first business day of each month a fee for the previous month at the rates listed below.

FUND ADMINISTRATION

\$32,000 per year

MISCELLANEOUS CHARGES

The Fund shall be charged for the following products and services as applicable:

- o Ad hoc reports
- o Ad hoc SQL time
- o Materials for Rule 15c-3 Presentations
- o COLD Storage
- o Digital Recording
- o Microfiche/microfilm production
- o Magnetic media tapes and freight
- o Pre-Printed Stock, including business forms, certificates, envelopes, checks and stationary

FEE ADJUSTMENTS

After the one year anniversary of the effective date of this Agreement, EQSF may adjust the fees described in the above sections once per calendar year, upon thirty (30) days prior written notice in an amount not to exceed the cumulative percentage increase in the Consumer Price Index for All Urban Consumers (CPI-U) U.S. City Average, All items (unadjusted) - (1982-84=100), published by the U.S. Department of Labor since the last such adjustment in the Company's monthly fees (or the Effective Date absent a prior such adjustment).

PROGRAMMING COSTS (TO THE EXTENT REQUESTED BY THE FUND)

The following programming rates are subject to an annual 5% increase after the one year anniversary of the effective date of this Agreement.

(a) Dedicated Team: Programmer: \$100,000 per annum

|   |         |                                |
|---|---------|--------------------------------|
|   | BSA:    | \$ 85,000 per annum            |
|   | Tester: | \$ 65,000 per annum            |
| (b) System Enhancements (Non Dedicated Team): |         | \$150.00 per/hr per programmer |

-21-

SCHEDULE D

-----

OUT-OF-POCKET EXPENSES

The Fund shall reimburse EQSF monthly for applicable out-of-pocket expenses, including, but not limited to the following items:

- o Postage - direct pass through to the Fund
- o Telephone and telecommunication costs, requested by the Fund, including all lease, maintenance and line costs
- o Shipping, Certified and Overnight mail and insurance
- o Terminals, communication lines, printers and other equipment and any expenses incurred in connection with such terminals and lines requested by the Fund
- o Duplicating services
- o Courier services
- o Overtime, as approved by the Fund
- o Temporary staff, as approved by the Fund
- o Travel and entertainment, as approved by the Fund
- o Record retention, retrieval and destruction costs, including, but not limited to exit fees charged by third party record keeping vendors
- o Third party audit reviews
- o Vendor set-up charges for services
- o EDGAR filing fees
- o Vendor pricing comparison
- o Such other expenses as are agreed to by EQSF and the Fund

The Fund agrees that postage and mailing expenses will be paid on the day of or prior to mailing as agreed with EQSF. In addition, the Fund will

promptly reimburse EQSF for any other unscheduled expenses incurred by EQSF whenever the Fund and EQSF mutually agree that such expenses are not otherwise properly borne by EQSF as part of its duties and obligations under the Agreement.

-22-

## SUB-ADMINISTRATION AGREEMENT

THIS SUB-ADMINISTRATION AGREEMENT, dated as of this 10th day of September, 1999, the "Agreement"), between FIRST DATA INVESTOR SERVICES GROUP, INC., a Massachusetts corporation ("Investor Services Group"), and EQSF ADVISERS, INC., a New York corporation (the "Administrator").

WHEREAS, the Administrator provides administration services to Third Avenue Trust (the "Fund"), an open-end management investment company under the Investment Company Act of 1940, as amended (the "1940 Act"); and

WHEREAS, the Administrator desires to retain Investor Services Group to render certain sub-administrative services with respect to each investment portfolio listed in Schedule A hereto, as the same may be amended from time to time by the parties hereto (collectively, the "Portfolios"), and Investor Services Group is willing to render such services;

WITNESSETH:

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained, it is agreed between the parties hereto as follows:

### Article 1 DEFINITIONS.

1.1 Whenever used in this Agreement, the following words and phrases, unless the context otherwise requires, shall have the following meanings:

(a) "Articles of Incorporation" shall mean the Articles of Incorporation, Declaration of Trust, or other similar organizational document as the case may be, of the Fund as the same may be amended from time to time.

(b) "Authorized Person" shall be deemed to include (i) any officer of the Administrator; or (ii) any person, whether or not such person is an officer or employee of the Administrator, duly authorized to give Oral Instructions or Written Instructions on behalf of the Administrator as indicated in writing to Investor Services Group from time to time.

(c) "Board Members" shall mean the Directors or Trustees of the governing body of the Fund, as the case may be.

(d) "Board of Directors" shall mean the Board of Directors or Board of Trustees of the Fund, as the case may be.

(e) "Commission" shall mean the Securities and Exchange Commission.

(f) "Custodian" refers to any custodian or subcustodian of securities and other property which the Fund may from time to time deposit, or cause to be deposited or held under the name or account of such a custodian pursuant to a Custody Agreement.

(g) "1933 Act" shall mean the Securities Act of 1933 and the rules and regulations promulgated thereunder, all as amended from time to time.

(h) "1940 Act" shall mean the Investment Company Act of 1940 and the rules and regulations promulgated thereunder, all as amended from time to time.

(i) "Oral Instructions" shall mean instructions, other than Written Instructions, actually received by Investor Services Group from a person reasonably believed by Investor Services Group to be an Authorized Person.

(j) "Portfolio" shall mean each separate series of shares offered by the Fund representing interests in a separate portfolio of securities and other assets.

(k) "Prospectus" shall mean the most recently dated Fund Prospectus and Statement of Additional Information, including any supplements thereto if any, which has become effective under the 1933 Act and the 1940 Act.

(l) "Shares" refers collectively to such shares of capital stock or beneficial interest, as the case may be, or class thereof, of each respective Portfolio of the Fund as may be issued from time to time.

(m) "Shareholder" shall mean a record owner of Shares of each respective Portfolio of the Fund.

(n) "Written Instructions" shall mean a written communication signed by a person reasonably believed by Investor Services Group to be an Authorized Person and actually received by Investor Services Group. Written Instructions shall include manually executed originals and authorized electronic transmissions, including telefacsimile of a manually executed original or other process.

Article 2 APPOINTMENT OF INVESTOR SERVICES GROUP.

The Administrator hereby appoints Investor Services Group to act as Sub-Administrator of the Fund on the terms set forth in this Agreement. Investor Services Group accepts such appointment and agrees to render the services herein set forth for the compensation herein provided.

Article 3 DUTIES OF INVESTOR SERVICES GROUP.

3.1 Investor Services Group shall be responsible for the following: performing the customary services of a sub-administrator, including treasury and blue sky for the Fund, as more

-2-

fully described in the written schedule of Duties of Investor Services Group annexed hereto as Schedule B and incorporated herein, and subject to the supervision and direction of the Administrator.

3.2 In performing its duties under this Agreement, Investor Services Group: (a) will act in accordance with the Articles of Incorporation, By-Laws, Prospectuses and with the Oral Instructions and Written Instructions of the Administrator and will conform to and comply with the requirements of the 1940 Act and all other applicable federal or state laws and regulations; and (b) will consult with legal counsel to the Fund, as necessary and appropriate. Furthermore, Investor Services Group shall not have or be required to have any authority to supervise the investment or reinvestment of the securities or other properties which comprise the assets of the Fund or any of its Portfolios and shall not provide any investment advisory services to the Fund or any of its Portfolios.

3.3 In addition to the duties set forth herein, Investor Services Group shall perform such other duties and functions, and shall be paid such amounts therefor, as may from time to time be agreed upon in writing between the Administrator and Investor Services Group.

Article 4 RECORDKEEPING AND OTHER INFORMATION.

4.1 Investor Services Group shall create and maintain all records required of it pursuant to its duties hereunder and as set forth in Schedule B in accordance with all applicable laws, rules and regulations, including records required by Section 31(a) of the 1940 Act. Where applicable, such records shall be maintained by Investor Services Group for the periods and in the places required by Rule 31a-2 under the 1940 Act.

4.2 To the extent required by Section 31 of the 1940 Act, Investor Services Group agrees that all such records prepared or maintained by Investor

Services Group relating to the services to be performed by Investor Services Group hereunder are the property of the Fund and will be preserved, maintained and made available in accordance with such section, and will be surrendered promptly to the Fund on and in accordance with the Administrator's request.

Article 5 ADMINISTRATOR INSTRUCTIONS.

5.1 Investor Services Group will have no liability when properly acting upon Written or Oral Instructions reasonably believed to have been executed or orally communicated by an Authorized Person and will not be held to have any notice of any change of authority of any person until receipt of a Written Instruction thereof from the Administrator.

5.2 At any time, Investor Services Group may request Written Instructions from the Administrator and may seek advice from legal counsel for the Fund, or its own legal counsel, with respect to any matter arising in connection with this Agreement, and it shall not be liable for any action properly taken or not taken or suffered by it in good faith in accordance with such Written Instructions or in accordance with the opinion of counsel for the Fund or for Investor

-3-

Services Group. Written Instructions requested by Investor Services Group will be provided by the Administrator within a reasonable period of time.

5.3 Investor Services Group, its officers, agents or employees, shall accept Oral Instructions or Written Instructions given to them by any person representing or acting on behalf of the Administrator only if said representative is an Authorized Person. The Administrator agrees that all Oral Instructions shall be followed within one business day by confirming Written Instructions, and that the Administrator's failure to so confirm shall not impair in any respect Investor Services Group's right to rely on Oral Instructions.

Article 6 COMPENSATION.

6.1 Investor Services Group will from time to time employ or associate with itself such person or persons as Investor Services Group may believe to be particularly suited to assist it in performing services under this Agreement. Such person or persons may be officers and employees who are employed by both Investor Services Group and the Administrator. The compensation of such person or persons shall be paid by Investor Services Group and no obligation shall be incurred on behalf of the Administrator in such respect.

6.2 Investor Services Group shall not be required to pay any of the following expenses incurred by the Administrator or the Fund: membership dues in the Investment Company Institute or any similar organization; investment advisory expenses; costs of printing and mailing stock certificates, prospectuses, reports and notices; interest on borrowed money; brokerage commissions; stock exchange listing fees; taxes and fees payable to Federal, state and other governmental agencies; fees of Board Members of the Fund who are not affiliated with Investor Services Group; outside auditing expenses; outside legal expenses; Blue Sky registration or filing fees; or other expenses not specified in this Section 6.2 which are properly payable by the Administrator or the Fund. Investor Services Group shall not be required to pay any Blue Sky registration or filing fees unless and until it has received the amount of such fees from the Administrator.

6.3 The Administrator will compensate Investor Services Group for the performance of its obligations hereunder in accordance with the fees and other charges set forth in the written Fee Schedule annexed hereto as Schedule C and incorporated herein.

6.4 In addition to those fees set forth in Section 6.3 above, the Administrator agrees to pay, and will be billed separately for, out-of-pocket expenses actually incurred by Investor Services Group in the performance of its duties hereunder. Out-of-pocket expenses shall include, but shall not be limited to, the items specified in the written schedule of out-of-pocket charges annexed hereto as Schedule D and incorporated herein. Schedule D may be modified by written agreement between the parties. Unspecified out-of-pocket expenses shall be limited to those out-of-pocket expenses reasonably incurred by Investor Services Group in the performance of its obligations hereunder.

-4-

6.5 The Administrator agrees to pay all fees, charges and out-of-pocket expenses to Investor Services Group by Federal Funds Wire within fifteen (15) business days following the receipt of the respective invoice. In addition, with respect to all fees under this Agreement, Investor Services Group may charge a service fee equal to the lesser of (i) one and one half percent (1 1/2%) per month or (ii) the highest interest rate legally permitted on any past due invoiced amounts, provided however, the foregoing service fee shall not apply if the Administrator in good faith legitimately disputes any invoice amount in which case the Administrator shall do the following within thirty (30) days of the postmark date: (a) pay Investor Services Group the undisputed amount of the invoice; and (b) provide Investor Services Group a detailed written description of the disputed amount and the basis for the Administrator's dispute with such amount. In addition, the Administrator shall cooperate with Investor Services Group in resolving disputed invoice amounts and then promptly paying such amounts determined to be due.

6.6 Any compensation agreed to hereunder may be adjusted from time to time by attaching to Schedule C a revised Fee Schedule executed and dated by the parties hereto.

Article 7 [RESERVED]

Article 8 FUND ACCOUNTING SYSTEM.

8.1 Investor Services Group shall retain title to and ownership of any and all data bases, computer programs, screen formats, report formats, interactive design techniques, derivative works, inventions, discoveries, patentable or copyrightable matters, concepts, expertise, patents, copyrights, trade secrets, and other related legal rights utilized by Investor Services Group in connection with the services provided by Investor Services Group to the Administrator herein (the "Investor Services Group System").

8.2 Investor Services Group hereby grants to the Administrator a limited license to the Investor Services Group System for the sole and limited purpose of having Investor Services Group provide the services contemplated hereunder and nothing contained in this Agreement shall be construed or interpreted otherwise and such license shall immediately terminate with the termination of this Agreement.

8.3 In the event that the Administrator, including any affiliate or agent of the Administrator or any third party acting on behalf of the Administrator is provided with direct access to the Investor Services Group System, such direct access capability shall be limited to direct entry to the Investor Services Group System by means of on-line mainframe terminal entry or PC emulation of such mainframe terminal entry and any other non-conforming method of transmission of information to the Investor Services Group System is strictly prohibited without the prior written consent of Investor Services Group.

Article 9 REPRESENTATIONS AND WARRANTIES.

9.1 Investor Services Group represents and warrants to the Administrator that:

(a) it is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Massachusetts;

(b) it is empowered under applicable laws and by its Articles of Incorporation and By-Laws to enter into and perform this Agreement;

(c) all requisite corporate proceedings have been taken to authorize it to enter into this Agreement; and

(d) it has and will continue to have access to the necessary facilities, equipment and personnel to perform its duties and obligations under this Agreement.

9.2 The Administrator represents and warrants to Investor Services Group that:

(a) it is duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is organized;

(b) it is empowered under applicable laws and by its Articles of Incorporation and By-Laws to enter into this Agreement; and

(c) all corporate proceedings required have been taken to authorize it to enter into this Agreement.

#### Article 10 INDEMNIFICATION.

10.1 The Administrator shall indemnify and hold Investor Services Group harmless from and against any and all claims, costs, expenses (including reasonable attorneys' fees), losses, damages, charges, payments and liabilities of any sort or kind which may be asserted against Investor Services Group or for which Investor Services Group may be held to be liable in connection with this Agreement or Investor Services Group's performance hereunder (a "Claim"), unless such Claim resulted from a negligent act or omission to act or bad faith by Investor Services Group in the performance of its duties hereunder.

10.2 Investor Services Group shall indemnify and hold the Administrator harmless from and against any and all claims, costs, expenses (including reasonable attorneys' fees), losses, damages, charges, payments and liabilities of any sort or kind which may be asserted against the Administrator or for which the Administrator may be held to be liable in connection with this Agreement (a "Claim"), provided that such Claim resulted from a negligent act or omission to act, bad faith, willful misfeasance or reckless disregard by Investor Services Group in the performance of its duties hereunder.

10.3 In any case in which one party (the "Indemnifying Party") may be asked to indemnify or hold the other party (the "Indemnified Party") harmless, the Indemnified Party will notify the Indemnifying Party promptly after identifying any situation which it believes

presents or appears likely to present a claim for indemnification against the Indemnified Party although the failure to do so shall not prevent recovery by the Indemnified Party and shall keep the Indemnifying Party advised with respect to all developments concerning such situation. The Indemnifying Party shall have the option to defend the Indemnified Party against any Claim which may be the subject of this indemnification, and, in the event that the Indemnifying Party so elects, such defense shall be conducted by counsel chosen by the Indemnifying Party and reasonably satisfactory to the Indemnified Party, and thereupon the Indemnifying Party shall take over complete defense of the Claim and the Indemnified Party shall sustain no further legal or other expenses in respect of such Claim. The Indemnified Party will not confess any Claim or make any compromise in any case in which the Indemnifying Party will be asked to provide indemnification, except with the Indemnifying Party's prior written consent. The obligations of the parties hereto under this Article 10 shall survive the termination of this Agreement.

10.4 Any claim for indemnification under this Agreement must be made prior to the earlier of:

(a) one year after the Indemnified Party becomes aware of the event for which indemnification is claimed; or

(b) one year after the earlier of the termination of this Agreement or the expiration of the term of this Agreement.

10.4 Except for remedies that cannot be waived as a matter of law (and injunctive or provisional relief), the provisions of this Article 10 shall be Investor Services Group's sole and exclusive remedy for claims or other actions or proceedings to which the Administrator's indemnification obligations pursuant to this Article 10 may apply.

## Article 11 STANDARD OF CARE.

11.1 Investor Services Group shall at all times act in good faith and agrees to use its best efforts within commercially reasonable limits to ensure the accuracy of all services performed under this Agreement, but assumes no responsibility for loss or damage to the Administrator unless said errors are caused by Investor Services Group's own negligence, bad faith or willful misconduct or that of its employees.

11.2 Neither party may assert any cause of action against the other party under this Agreement that accrued more than three (3) years prior to the filing of the suit (or commencement of arbitration proceedings) alleging such cause of action.

11.3 Each party shall have the duty to mitigate damages for which the other party may become responsible.

11.5 Without in any way limiting the foregoing, in the event Investor

Services Group shall provide Blue Sky services to the Administrator, Investor Services Group shall have no

-7-

liability for failing to file on a timely basis any material to be provided by the Administrator or its designee that it has not received on a timely basis from the Administrator or its designee, nor shall Investor Services Group have any responsibility to review the accuracy or adequacy of materials it receives from the Administrator or its designee for filing or bear any liability arising out of the timely filing of such materials; nor shall Investor Services Group have any liability for monetary damages for the sale of securities in jurisdictions where Shares are not properly registered, or in jurisdictions where Shares are sold in excess of the lawfully registered amount unless such failure of proper registration or excess sales is due to the willful misfeasance, bad faith or negligence of Investor Services Group and provided Investor Services Group has requested such information from the Administrator in a timely fashion.

#### Article 12 CONSEQUENTIAL DAMAGES.

NOTWITHSTANDING ANYTHING IN THIS AGREEMENT TO THE CONTRARY, IN NO EVENT SHALL EITHER PARTY, ITS AFFILIATES OR ANY OF ITS OR THEIR DIRECTORS, OFFICERS, EMPLOYEES, AGENTS OR SUBCONTRACTORS BE LIABLE FOR INCIDENTAL, INDIRECT OR CONSEQUENTIAL DAMAGES.

As used in the preceding paragraph "incidental, indirect or consequential damages" means damages which do not flow directly from the act of the party or which arise from the intervention of special circumstances not ordinarily predictable, and does NOT include direct damages which arise naturally or ordinarily from a breach of contract.

#### Article 13 TERM AND TERMINATION.

13.1 This Agreement shall be effective on the date first written above and shall continue for a period of three (3) years (the "Initial Term").

13.2 Upon the expiration of the Initial Term, this Agreement shall automatically renew for successive terms of one (1) year ("Renewal Terms") each, unless the Administrator or Investor Services Group provides written notice to the other of its intent not to renew. Such notice must be received not less than ninety (90) days and not more than one-hundred eighty (180) days prior to the expiration of the Initial Term or the then current Renewal Term.

13.3 In the event a termination notice is given by the Administrator, all expenses associated with movement of records and materials and conversion

thereof to a successor administrator will be borne by the Administrator.

13.4 If a party hereto is guilty of a material failure to perform its duties and obligations hereunder (a "Defaulting Party") the other party (the "Non-Defaulting Party") may give written notice thereof to the Defaulting Party, and if such material breach shall not have been remedied within thirty (30) days after such written notice is given, then the Non-Defaulting Party may terminate this Agreement by giving thirty (30) days written notice of such termination to the Defaulting Party. If the material failure is one for which the Non-Defaulting Party has previously given the Defaulting Party notice as provided in the previous sentence, the

-8-

Agreement may be terminated by the Non-Defaulting Party upon thirty (30) days written notice without giving the Defaulting Party a second opportunity to cure such material failure. If Investor Services Group is the Non-Defaulting Party, its termination of this Agreement shall not constitute a waiver of any other rights or remedies of Investor Services Group with respect to services performed prior to such termination of rights of Investor Services Group to be reimbursed for out-of-pocket expenses. In all cases, termination by the Non-Defaulting Party shall not constitute a waiver by the Non-Defaulting Party of any other rights it might have under this Agreement or otherwise against the Defaulting Party.

13.5 Notwithstanding anything contained in this Agreement to the contrary and except as provided in Section 13.4, should the Fund or the Administrator desire to move any of the services provided by Investor Services Group hereunder to a successor service provider prior to the expiration of the then current Initial or Renewal Term, or should the Administrator or any of its affiliates take any action which would result in Investor Services Group ceasing to provide administration services to the Administrator or the Fund prior to the expiration of the Initial or any Renewal Term, Investor Services Group shall make a good faith effort and use all commercially reasonable efforts to facilitate the conversion on such prior date, however, there can be no guarantee that Investor Services Group will be able to facilitate a conversion of services on such prior date. In connection with the foregoing, should services be converted to a successor service provider or should the Administrator or any of its affiliates take any action which would result in Investor Services Group ceasing to provide administration services to the Administrator or the Fund prior to the expiration of the Initial or any Renewal Term, the payment of fees to Investor Services Group as set forth herein shall be accelerated to a date prior to the conversion or termination of services and calculated as if the services had remained with Investor Services Group until the expiration of the then current Initial or Renewal Term and calculated at the asset and/or Shareholder account levels, as the case may be, on the date notice of

termination was given to Investor Services Group.

#### Article 14 ADDITIONAL PORTFOLIOS

14.1 In the event that the Fund establishes one or more Portfolios in addition to those identified in Schedule A, with respect to which the Administrator desires to have Investor Services Group render services as sub-administrator under the terms hereof, the Administrator shall so notify Investor Services Group in writing, and if Investor Services Group agrees in writing to provide such services, Schedule A shall be amended to include such additional Portfolios. If after good faith negotiations, the parties are unable to agree upon the conditions upon which Investor Services Group will service the new Portfolio, either party shall have the right to terminate this Agreement upon sixty (60) days written notice to the other party.

#### Article 15 CONFIDENTIALITY.

15.1 The parties agree that the Proprietary Information (defined below) and the contents of this Agreement (collectively "Confidential Information") are confidential information of the parties and their respective licensors. The Administrator and Investor Services Group shall

-9-

exercise at least the same degree of care, but not less than reasonable care, to safeguard the confidentiality of the Confidential Information of the other as it would exercise to protect its own confidential information of a similar nature. The Administrator and Investor Services Group shall not duplicate, sell or disclose to others the Confidential Information of the other, in whole or in part, without the prior written permission of the other party. The Administrator and Investor Services Group may, however, disclose Confidential Information to their respective parent corporation, their respective affiliates, their subsidiaries and affiliated companies and employees, provided that each shall use reasonable efforts to ensure that the Confidential Information is not duplicated or disclosed in breach of this Agreement. The Administrator and Investor Services Group may also disclose the Confidential Information to independent contractors, auditors, and professional advisors, provided they first agree in writing to be bound by the confidentiality obligations substantially similar to this Section 15.1. Notwithstanding the previous sentence, in no event shall either the Administrator or Investor Services Group disclose the Confidential Information to any competitor of the other without specific, prior written consent.

15.2 Proprietary Information means:

(a) any data or information that is competitively sensitive material, and not generally known to the public, including, but not limited to, information about product plans, marketing strategies, finance, operations, customer relationships, customer profiles, sales estimates, business plans, portfolio holdings and internal performance results relating to the past, present or future business activities of the Administrator or Investor Services Group, their respective subsidiaries and affiliated companies and the customers, clients and suppliers of any of them;

(b) any scientific or technical information, design, process, procedure, formula, or improvement that is commercially valuable and secret in the sense that its confidentiality affords the Administrator or Investor Services Group a competitive advantage over its competitors; and

(c) all confidential or proprietary concepts, documentation, reports, data, specifications, computer software, source code, object code, flow charts, databases, inventions, know-how, show-how and trade secrets, whether or not patentable or copyrightable.

15.3 Confidential Information includes, without limitation, all documents, inventions, substances, engineering and laboratory notebooks, drawings, diagrams, specifications, bills of material, equipment, prototypes and models, and any other tangible manifestation of the foregoing of either party which now exist or come into the control or possession of the other.

15.4 The obligations of confidentiality and restriction on use herein shall not apply to any Confidential Information that a party proves:

(a) Was in the public domain prior to the date of this Agreement or subsequently came into the public domain through no fault of such party; or

-10-

(b) Was lawfully received by the party from a third party free of any obligation of confidence to such third party; or

(c) Was already in the possession of the party prior to receipt thereof, directly or indirectly, from the other party; or

(d) Is required to be disclosed in a judicial or administrative proceeding after all reasonable legal remedies for maintaining such information in confidence have been exhausted including, but not limited to, giving the other party as much advance notice of the possibility of such disclosure as practical so the other party may attempt to stop such disclosure

or obtain a protective order concerning such disclosure; or

(e) Is subsequently and independently developed by employees, consultants or agents of the party without reference to the Confidential Information disclosed under this Agreement.

Article 16 FORCE MAJEURE; EXCUSED NON-PERFORMANCE.

No party shall be liable for any default or delay in the performance of its obligations under this Agreement if and to the extent such default or delay is caused, directly or indirectly, by (i) fire, flood, elements of nature or other acts of God; (ii) any outbreak or escalation of hostilities, war, riots or civil disorders in any country, (iii) any act or omission of the other party or any governmental authority; (iv) any labor disputes (provided that the employees' demands are not reasonable and within the party's power to satisfy); or (v) nonperformance by a third party or any similar cause beyond the reasonable control of such party, including without limitation, failures or fluctuations in telecommunications or other equipment. In addition, no party shall be liable for any default or delay in the performance of its obligations under this Agreement if and to the extent that such default or delay is caused, directly or indirectly, by the actions or inactions of the other party. In any such event, the non-performing party shall be excused from any further performance and observance of the obligations so affected only for as long as such circumstances prevail and such party continues to use commercially reasonable efforts to recommence performance or observance as soon as practicable.

Article 17 ASSIGNMENT AND SUBCONTRACTING.

This Agreement, its benefits and obligations shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. This Agreement may not be assigned or otherwise transferred by either party hereto, without the prior written consent of the other party, which consent shall not be unreasonably withheld; provided, however, that Investor Services Group may, in its sole discretion, assign all its right, title and interest in this Agreement to an affiliate, parent or subsidiary, or to the purchaser of substantially all of its business. Investor Services Group may, in its sole discretion, engage subcontractors to perform any of the obligations contained in this Agreement to be performed by Investor Services

Group but shall not be relieved of its obligations and responsibilities hereunder by reason of such engagement.

Article 18      ARBITRATION.

18.1 Any claim or controversy arising out of or relating to this Agreement, or breach hereof, shall be settled by arbitration administered by the American Arbitration Association in New York, New York in accordance with its applicable rules, except that the Federal Rules of Evidence and the Federal Rules of Civil Procedure with respect to the discovery process shall apply.

18.2 The parties hereby agree that judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction.

18.3 The parties acknowledge and agree that the performance of the obligations under this Agreement necessitates the use of instrumentalities of interstate commerce and, notwithstanding other general choice of law provisions in this Agreement, the parties agree that the Federal Arbitration Act shall govern and control with respect to the provisions of this Article 18.

Article 19      NOTICE.

Any notice or other instrument authorized or required by this Agreement to be given in writing to the Administrator or Investor Services Group, shall be sufficiently given if addressed to that party and received by it at its office set forth below or at such other place as it may from time to time designate in writing.

To the Administrator:

EQSF Advisers, Inc.  
767 Third Avenue  
New York, New York 10017  
Attention: Ian M. Kirschner, General Counsel

To Investor Services Group:

First Data Investor Services Group, Inc.  
4400 Computer Drive  
Westboro, Massachusetts 01581  
Attention: President

with a copy to Investor Services Group's General Counsel

Article 20      GOVERNING LAW/VENUE.

The laws of the State of New York, excluding the laws on conflicts of laws, shall govern the interpretation, validity, and enforcement of this agreement.

Article 21 COUNTERPARTS.

This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original; but such counterparts shall, together, constitute only one instrument.

Article 22 CAPTIONS.

The captions of this Agreement are included for convenience of reference only and in no way define or limit any of the provisions hereof or otherwise affect their construction or effect.

Article 23 PUBLICITY.

Neither Investor Services Group nor the Administrator shall release or publish news releases, public announcements, advertising or other publicity relating to this Agreement or to the transactions contemplated by it without the prior review and written approval of the other party; provided, however, that either party may make such disclosures as are required by legal, accounting or regulatory requirements after making reasonable efforts in the circumstances to consult in advance with the other party.

Article 24 RELATIONSHIP OF PARTIES/NON-SOLICITATION.

24.1 The parties agree that they are independent contractors and not partners or co-venturers and nothing contained herein shall be interpreted or construed otherwise.

24.2 During the term of this Agreement and for one (1) year afterward, neither Party shall recruit, solicit, employ or engage, for itself or others, the other Party's employees.

Article 25 ENTIRE AGREEMENT; SEVERABILITY.

25.1 This Agreement, including Schedules, Addenda, and Exhibits hereto, constitutes the entire Agreement between the parties with respect to the subject matter hereof and supersedes all prior and contemporaneous proposals, agreements, contracts, representations, and understandings, whether written or oral, between the parties with respect to the subject matter hereof. No change, termination, modification, or waiver of any term or condition of the Agreement shall be valid unless in writing signed by each party. No such writing shall be effective as against Investor Services Group unless said writing is executed by a Senior Vice President, Executive Vice President, or President of Investor Services Group. A party's waiver of a breach of any term or condition in the Agreement shall not be deemed a waiver of any subsequent breach of the same or another term or condition.

25.2 The parties intend every provision of this Agreement to be severable. If a court of competent jurisdiction determines that any term or provision is illegal or invalid for any reason, the illegality or invalidity shall not affect the validity of the remainder of this Agreement. In such case, the parties shall in good faith modify or substitute such provision consistent with the original intent of the parties. Without limiting the generality of this paragraph, if a court determines that any remedy stated in this Agreement has failed of its essential purpose, then all other provisions of this Agreement, including the limitations on liability and exclusion of damages, shall remain fully effective.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be duly executed and delivered by their duly authorized officers as of the date first written above.

EQSF ADVISERS, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FIRST DATA INVESTOR SERVICES GROUP, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

SCHEDULE A  
-----

LIST OF PORTFOLIOS

Third Avenue Value Portfolio

SCHEDULE B  
-----

DUTIES OF INVESTOR SERVICES GROUP

SERVICES RELATED TO SUB-ADMINISTRATION

PROCESSING AND PAYMENT OF BILLS

- o Centralized contact to receive all invoices for Fund operating expenses.
- o Voucher invoices for authorization / money movement instructions
- o Distribution of approved vouchers for payment / recording
- o Monitoring bank statement for appropriate money movement and timing
- o Ensure proper wire instructions for expenses paid by wire transfer
- o Coordinate mailing of checks to various vendors

PREPARATION OF SEMI-ANNUAL REPORTS AND ANNUAL REPORTS

- o Preparation of Schedule of Investments, Statements of Assets and Liabilities, Operations and Changes, Financial Highlights and Footnotes to Financial Statements.
- o Contact for auditors regarding questions / comments relating to the Financial Statements / process.
- o Timely delivery of properly formatted tape of registered shareholders to ADP for quarterly report mailing.
- o Centralized contact for receipt of president's letter, audit opinion letter and letter of internal controls.

- o Centralized area to receive and implement comments and changes.
- o Coordination and timing with printer.
- o Review content of draft copies prior to printing.
- o Average Net Assets / Ratio Analysis.

#### MANAGEMENT REPORTING

- o Daily, Schedule of Investment Report delivered electronically

#### COMPLETION AND FILING OF N-SARS

- o Preparation of N-SARs semi-annually.
- o Preparation of Financial Data Sheet to facilitate EDGAR filing.
- o Filing of N-SARs.

#### STATE AND LOCAL TAX INFORMATION

- o Preparation of 1099-DIV insert cards.
- o Coordination with printer, mailroom for 1099-DIV insert cards.
- o Review of 1099-DIV insert prior to printing.

-17-

#### SCHEDULE C

-----

#### FEE SCHEDULE

For the services to be rendered, the facilities to be furnished and the payments to be made by Investor Services Group, as provided for in this Agreement, the Administrator will pay Investor Services Group on the first business day of each month a fee for the previous month at the rates listed below.

#### FUND ADMINISTRATION

\$12,000 per year

#### MISCELLANEOUS CHARGES

The Company shall be charged for the following products and services as applicable:

- o Ad hoc reports
- o Ad hoc SQL time
- o Materials for Rule 15c-3 Presentations
- o COLD Storage
- o Digital Recording
- o Microfiche/microfilm production



- o Postage - direct pass through to the Company
- o Telephone and telecommunication costs, requested by the Administrator, including all lease, maintenance and line costs
- o Shipping, Certified and Overnight mail and insurance
- o Terminals, communication lines, printers and other equipment and any expenses incurred in connection with such terminals and lines requested by the Administrator
- o Duplicating services
- o Courier services
- o Overtime, as approved by the Company
- o Temporary staff, as approved by the Company
- o Travel and entertainment, as approved by the Company
- o Record retention, retrieval and destruction costs, including, but not limited to exit fees charged by third party record keeping vendors
- o Third party audit reviews
- o Vendor set-up charges for services
- o EDGAR filing fees
- o Vendor pricing comparison
- o Such other expenses as are agreed to by Investor Services Group and the Company

The Company agrees that postage and mailing expenses will be paid on the day of or prior to mailing as agreed with Investor Services Group. In addition, the Company will promptly reimburse Investor Services Group for any other unscheduled expenses incurred by Investor Services Group whenever the Company and Investor Services Group mutually agree that such expenses are not otherwise properly borne by Investor Services Group as part of its duties and obligations under the Agreement.

September 10, 1999

Third Avenue Variable Series Trust  
767 Third Avenue  
New York, New York 10017-2023

Re: Pre-Effective Amendment No. 1 to the  
Registration Statement on Form N-1A  
for the Third Avenue Variable Series Trust, on  
behalf of its series Third Avenue Value Portfolio  
(File Nos. 333-81141 and 811-9395)  
-----

Ladies and Gentlemen:

We have acted as counsel to Third Avenue Variable Series Trust (the "Trust"), a Delaware business trust, on behalf of its series Third Avenue Value Portfolio (the "Portfolio") in connection with the preparation of Pre-Effective Amendment No. 1 to the Trust's Registration Statement on Form N-1A (as amended, the "Registration Statement") to be filed under the Securities Act of 1933, as amended (the "1933 Act"), and the Investment Company Act of 1940, as amended (the "1940 Act"), with the Securities and Exchange Commission (the "Commission") on or about September 10, 1999. The Registration Statement relates to the registration under the 1933 Act and the 1940 Act of an indefinite number of shares of beneficial interest, par value \$.01 per share, of the Trust on behalf of the Portfolio (collectively, the "Shares").

This opinion is delivered in accordance with the requirements of Item 23(i) of Form N-1A under the 1933 Act and the 1940 Act.

In connection with this opinion, we have examined originals or copies, certified or otherwise identified to our satisfaction, of (i) the Certificate of Trust filed with the Secretary of State of Delaware, (ii) the Agreement and

Third Avenue Variable Series Trust

Declaration of Trust of the Trust (the "Declaration of Trust"), (iii) the By-Laws of the Trust (the "By-Laws"), (iv) the Certificate of Designation establishing the series of the Trust, (v) the resolutions adopted by the Board of Trustees of the Trust relating to the authorization, issuance and sale of the Shares, the filing of the Registration Statement and any amendments or supplements thereto and related matters and (vi) such other documents as we have deemed necessary or appropriate as a basis for the opinions set forth herein.

In such examination we have assumed the legal capacity of natural persons, the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified, conformed, photostatic, or other copies and the authenticity of the originals of such latter documents. As to any facts material to such opinion which were not independently established, we have relied on statements or representations of officers and other representatives of the Trust or others.

Members of our firm are admitted to the practice of law in the State of New York and we do not express any opinion as to the law of any other jurisdiction other than matters relating to the Delaware business organizational statutes (including statutes relating to Delaware business trusts) and the federal laws of the United States of America to the extent specifically referred to herein.

Based upon and subject to the foregoing, we are of the opinion that the issuance and sale of Shares by the Trust on behalf of the Portfolio have been validly authorized and, assuming certificates therefor have been duly executed, countersigned, registered and delivered or the shareholders' accounts have been duly credited and the Shares represented thereby have been fully paid for, such Shares will be validly issued, fully paid and nonassessable.

Third Avenue Variable Series Trust

September 10, 1999

Page 3

We hereby consent to the filing of this opinion with the Commission as Exhibit (i) to the Registration Statement. We also consent to the reference to our firm in Exhibit (i) to the Registration Statement. In giving

this consent, we do not hereby admit that we are in the category of persons whose consent is required under Section 7 of the 1933 Act or the rules and regulations of the Commission.

Very truly yours,

/s/ Skadden, Arps, Slate, Meagher & Flom LLP

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in the Statement of Additional Information constituting part of this Pre-Effective Amendment No. 1 to the registration statement on Form N-1A (the "Registration Statement") of our report dated September 10, 1999, relating to the financial statements of Third Avenue Variable Series Trust - Third Avenue Value Portfolio, which appears in such Statement of Additional Information, and to the incorporation by reference of our report into the Prospectus which constitutes part of this Registration Statement. We also consent to the reference to us under the heading "Independent Accountants" in such Statement of Additional Information.

PricewaterhouseCoopers LLP  
1177 Avenue of the Americas  
New York, New York 10036  
September 10, 1999