Third Avenue Funds

THIRD AVENUE VALUE FUND

THIRD AVENUE SMALL-CAP VALUE FUND

THIRD AVENUE REAL ESTATE VALUE FUND

THIRD AVENUE INTERNATIONAL VALUE FUND

LETTERS TO OUR SHAREHOLDERS

Third Quarter Commentary

July 31, 2004

Third Avenue Value Fund

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

Dear Fellow Shareholders:

At July 31, 2004, the unaudited net asset value attributable to the 75,157,953 common shares outstanding of the Third Avenue Value Fund ("TAVF", "Third Avenue", or the "Fund") was $45.45 per share. This compares with an unaudited net asset value of $43.25 at April 30, 2004 and an unaudited net asset value at July 31, 2003 of $35.16 per share, adjusted for a subsequent distribution to shareholders. At August 31, 2004, the unaudited net asset value was $45.86 per share.

QUARTERLY ACTIVITY*

The quarter was a relatively quiet one. The Fund provided equity capital infusions for two companies in which it already has substantial investments – American Capital Access and Danielson Holding Corporation; and TAVF expanded its common stock positions in four foreign issues – Guocco Group, Hutchison Whampoa, Investor AB and Toyota Industries. Each of these companies seems extremely well capitalized and each issue was acquired at prices that appear to reflect meaningful discounts from readily ascertainable net asset values.

Two bond issues held were disposed of; one matured and one was converted to common stock. Four common stock issues were eliminated of which two sales – Canary Wharf and MONY Group – occurred because of buyouts or mergers. Liberty Homes Common was sold after the company announced that it intended to go private, not by buying in minority interests for cash, but rather by deregistering with the Securities and Exchange Commission because this over-the-counter company has fewer than 300 shareholders of record. From the Third Avenue point of view, this is an extremely unattractive method for going private. Lodgian has been a very poor performer, both as a business and as a stock market performer; TAVF sold its equity position in Lodgian and took a tax loss.

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* Portfolio holdings are subject to change without notice. The following is a list of Third Avenue Value Fund's 10 largest holdings, and the percentage of the total net assets each security represented, as of July 31, 2004: Kmart Holding Corp., 8.23%; Toyota Industries Corp., 6.16%; Millea Holdings, Inc. ADRs, 4.61%; The St. Joe Company, 3.58%; Tejon Ranch Co., 3.33%; Mitsui Sumitomo Insurance Co., Ltd., 2.94%; Brascan Corp., 2.84%; MBIA, Inc. 2.81%; USG Corp. 8.5% Senior Notes due 8/1/05, 2.79%; and Forest City Enterprises, Inc. (Class A), 2.71%.

Principal Amount or Number of Shares	New Position Acquired
84,940 shares	American Capital Access Holdings Series A Senior Convertible Preferred Stock ("ACA Series A Preferred")
	Increases in Existing Positions
1,943,838 shares	Danielson Holding Corp. Common Stock ("Danielson Common")
303,000 shares	Guocco Group Ltd. Common Stock ("Guocco Common")
529,800 shares	Hutchison Whampoa Ltd. Common Stock ("Hutchison Whampoa Common")
100,000 shares	Investor AB Class A Common Stock ("Investor AB Common")
100,000 shares	Toyota Industries Corp. Common Stock ("Toyota Industries Common")
	Positions Eliminated
$7,500,000	CIT Group 5.625% Notes due 5/17/04 ("CIT Notes")
$10,000,000	Danielson Holding Corp. 12% Debentures due 12/15/04 ("Danielson Debentures")
336,950 shares	Canary Wharf Group PLC Common Stock ("Canary Wharf Common")
129,000 shares	Liberty Homes Class A and Class B Common Stock ("Liberty Homes Common")
146,543 shares and 764,729 warrants	Lodgian Inc. Common Stock and Warrants ("Lodgian Equity")
836,000 shares	The MONY Group, Inc. Common Stock ("MONY Common")

REFORMING GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP")

A radical change in thinking seems needed if GAAP are to be made more sensible, and even more useful as an analytical tool. Given its present direction, GAAP increasingly impose unneeded and counter-productive burdens on American corporations, American management and American capital markets. GAAP, first and foremost, ought to be geared toward meeting the needs and desires of creditors rather than the needs and desires of short-run stock market speculators, who are vitally interested in day-to-day stock market price fluctuations. Currently, GAAP are directed increasingly toward meeting the needs and desires of short-run stock market speculators. This is accomplished by setting up increasingly rigid sets of rules designed to meet an impossible goal: have periodic statements of cash flows from operations, earnings and earnings per share be as accurate (or truthful) as possible.

If GAAP were geared to the needs of creditors, there would be a tremendous change in emphasis away from focusing on reported earnings per share. GAAP would, in a sense, go back to the standards in existence prior to the 1970's:

1) The company whose financial statements are being audited would be viewed as a stand-alone, an entity separate and apart from its stockholders and its management.

2) GAAP would be governed by the modifying convention of conservatism rather than be a system striving for accuracy and for truth.

3) There would be no Primacy of the Income Account. Balance sheets would be equally important and there would be general recognition that each accounting number is derived from, modified by, and a function of, all other accounting numbers.

4) Financial statements would be prepared under the assumption that the users of such financial statements are reasonably intelligent, reasonably diligent, and are people who understand not only the uses, but also the limitations, of GAAP.

5) Comporting with underlying principles would become far more important than specific GAAP rules.

6) The analyst, *i.e.,* the user of GAAP, would understand that the most GAAP can give him, or her, are objective benchmarks which the analyst then uses as a tool to determine his, or her, version of economic truth and economic reality. Only very rarely (*e.g.,* the pricing of marketable securities by mutual funds) does GAAP reflect an economic truth or economic reality.

> **"Third Avenue has always analyzed equities from this creditor point of view. The underlying criteria for a common stock investment has been, and is, that the issue, after thorough analysis, appears to be 'safe and cheap'."**

7) It is extremely important in GAAP that material facts be disclosed in a conservative, consistent and reconcilable manner. How, and where, such material disclosures are made would become, by and large, unimportant.

Third Avenue has always analyzed equities from this creditor point of view. The underlying criteria for a common stock investment has been, and is, that the issue, after thorough analysis, appears to be "safe and cheap." Safe for the Fund comes before cheap; in other words, safe has a first priority. Safe means that the company, in which TAVF is a long-term equity investor, is unlikely to suffer a permanent impairment in underlying value, while its common stock is held by the Fund. This approach to equity investing is similar to how creditors analyze credit investments. Creditors seek to determine whether a performing loan will remain a performing loan over the lifetime of the loan.

One good argument against the Fund's approach is that many companies which need access to capital markets, especially equity markets, have to strive to maximize the trend of earnings per share as reported, or current earnings per share as reported, and to some extent also emphasize dividends. This, however, seems to have little, or nothing, to do with the TAVF portfolio. The Fund tries to restrict its common stock investments to companies with super strong financial positions who either do not have to access capital markets, or else pretty much control the timing of when they will access capital markets over, say, a five-year period.

THE COMPANY AS A STAND-ALONE - FULL DISCLOSURE VS. WHERE DISCLOSED

The current controversy over stock options, *i.e.,* whether options ought to be expensed using the "fair value method" – FASB 123; or whether options ought to be expensed using the "intrinsic value method" – APB 25, sheds much light on the bad direction in which GAAP seem to be headed.

First, stock options are a stockholder problem, not a company problem. Stock options cause dilution of the existing ownership. Viewing the company as a stand-alone, the cost to the company of issuing stock options equals the present value of the net cash drain from future cash payments to the common stock to be issued on the exercise of options; and also the present value of the probabilities that the company might have less access to capital markets because of the stock options. Both of these "costs" seem difficult to measure.

From a creditor's point of view there can be, and there usually is, a world of difference in the credit-worthiness of an issuer, if the issuer on the one hand, pays out, say, $200 million per annum in cash for executive compensation, or, on the other hand, issues stock options on a non-dividend paying common stock with a "fair value" of $200 million.

As to that "fair value" of $200 million for stock options, it is a pretty ludicrous number if the company is viewed as a stand-alone. There seems no rationale whatsoever for equating the value of a non-cash benefit to a recipient (*i.e.,* a corporate executive receiving a stock option) to the real cost to the company to bestow that benefit. It seems doubtful that the real cost to the company for issuing the stock option benefit is measurable, while the value of the benefit to the recipient of the benefit does seem measurable by "fair value" techniques. Why saddle the company with such a fictitious cost from a company perspective where the company is a stand-alone?

Fitch Ratings published an interesting article on April 20, 2004 in which it recognized that stock options were basically a stockholder problem, not a creditor problem; but then went on to state, "Because of their dilutive effect, many companies have a high propensity to repurchase shares issued upon exercise of employee stock options. In this context, from a bondholder perspective, employee options have a true cash cost and can be thought of as a form of deferred compensation, which has the effect of reducing available cash to service debt and increasing leverage."

Fitch Ratings seems to be involved in overkill. First, most companies issuing stock options probably don't have stock repurchase programs. Second, any company making cash distributions to shareholders for any reason – whether such cash distributions are in the form of dividends or share repurchases – "has the effect of reducing available cash to service debt and increasing leverage." Indeed, from a creditor point of view, cash distributions to shareholders are helpful only insofar as they enhance the debtor's access to capital markets. Third, share repurchases are strictly voluntary and thus do not have as adverse a credit impact as does required cash payments to creditors for interest, principal, or premium. Finally, some share repurchases can be beneficial to creditors and companies if the common stock being repurchased pays an ultra high cash dividend.

The FASB 123 vs. APB 25 dispute is strictly about form over substance. Companies using APB 25, the "intrinsic value method," are required under GAAP in financial statement footnotes to disclose the far greater expense of "the fair value method" as contained in FASB 123. The whole dispute revolves around whether disclosure of an ephemeral "expense" ought to be made in the income account or in the footnotes to the financial statements. The question for the serious investor who is not a short-run stock market speculator is, "Who cares?" except that in an overall appraisal of management by a trained analyst, information about management attitudes can be gleaned from looking at management opting either for FASB 123 or APB 25.

THE MODIFYING CONVENTION OF CONSERVATISM

When I was in graduate school, I studied under a great economist, Oskar Morgenstern, who used to say, "Everything is unpredictable, especially the future." Given the uncertain nature of the world as described by Professor Morgenstern, and given that the maximum creditors can expect out of investments is that performing loans will remain performing loans through maturity, it is wise that creditors would want to view GAAP through the prism of the modifying convention of conservatism. The modifying convention means that there will be a plethora of choices under GAAP. Those choices which are chosen ought to be those that, other things being equal, understate profitability and understate asset values as computed in accordance with GAAP. It is the analyst's job to adjust those understated, objective GAAP figures to the analyst's version of economic reality.

Admittedly, it is sometimes hard to state what is conservative and what is not. The most glaring cases probably occur where the analyst has to decide on whether the company ought to be analyzed as a "going concern" or an "investment vehicle." Two examples should suffice to demonstrate the point.

Many financial institutions – insurance companies and pension plans – have their assets invested mostly, or almost exclusively, in fixed income, interest bearing loans and bonds. However, the liabilities making up the right hand side of the balance sheet are not interest rate sensitive. For a property and casualty insurance company, those liabilities are reserves for losses while for pension plans and life companies, those liabilities are estimates of the amount and timing of future payments to be made to beneficiaries.

Suppose interest rates increase sharply. Viewing these institutions as investment vehicles, the market value of their fixed income assets will decline, reducing Net Asset Value ("NAV"). However, viewing these institutions as going concerns, future profitability will be greater than would otherwise be the case as the entities reinvest maturing credits at higher interest rates and as newly inflowing funds are invested at these higher interest rates. TAVF has a large portfolio of insurance stocks. Net, net, I think the odds are that the going concern benefits from higher interest rates will outweigh the investment vehicle negatives associated with higher interest rates for these insurance companies.

Accounting classifications under GAAP are rigid and never can be wholly realistic because of the going concern-investment vehicle dichotomy. Two of our largest portfolio positions – Kmart Holding Common Stock and Forest City Enterprises Common Stock – bring home the dichotomy.

At April 28, 2004, Kmart carried as a current asset $3.4 billion of merchandise inventory. Viewed as an investment vehicle, that merchandise inventory was indeed a current asset, something that, item by item, would be converted to cash over the next twelve months. Viewed as a going concern, however, that merchandise inventory is indeed a fixed asset, something that, in the aggregate, has to stay in existence, or even be enlarged, if Kmart is to continue as an ongoing operation.

At April 30, 2004, Forest City Enterprises carried as a fixed asset ("PP&E") a figure of $5.2 billion for real estate, net. Viewed as an investment vehicle, most of those real estate assets – office buildings and multi-use complexes rented on long-term leases to high quality tenants – were, indeed current assets, readily saleable (or refinanceable), building by building, without interfering at all with Forest City as an ongoing operation. Viewed as a going concern, these long-term assets are the major source of Forest City's operating cash flow and net income.

Whether Kmart's merchandise inventories ought to be reclassified as a fixed asset, and whether Forest City's PP&E ought to be reclassified as a current asset, is something for the analyst to decide. The GAAP classification seems all right to me. But then again, I only expect it to provide objective benchmarks, not reflect economic reality.

Another dichotomy which results in GAAP giving users objective benchmarks rather than realistic numbers is the split between making important the cash experience on the one hand and making important the wealth creation experience on the other. Accrual accounting gives the user tools to use in estimating future wealth creation. For example, the Fund is invested in the common stock of Encana Corporation, a company that has been a huge cash consumer as it discovers, develops, and acquires natural gas reserves in North America. The GAAP emphasis here is on Encana's wealth creation experience, not its cash creation experience. The same can be said for TAVF's investments in the common stocks of Tejon Ranch and The St. Joe Co., two wealth creators which consume cash. Cash accounting, on the other hand, shows flow results and short-changes the wealth creation experience. In the case of investment builders where the Fund owns common stocks, say, Brascan, Catellus and Forest City, it is pretty easy to ascertain cash flow from operations, but difficult, using GAAP, to ascertain the periodic wealth creation which is occurring and is such an important component in the appraisal of these securities.

CIT Corporation ("CIT"), a going concern with a perpetual life, is an example of a company involved in creating wealth on a permanent basis rather than being a business creating cash flows from operations on a periodic basis. As CIT prospers, funds generated, coupled with increased borrowings and increased net worth, are used to increase CIT's principal earnings asset - receivables; and are not used primarily either to increase CIT's cash holdings or to increase cash distributions to shareholders. As the amount of creditworthy receivables expand, and net worth expands, CIT creates wealth by consuming cash (*i.e.,* converting cash to more and more receivables). It should be noted, though, that for CIT to prosper, its existing receivables portfolio, receivable by receivable, has to be cash flow positive after accounting for the cost of money, *i.e.,* the receivables portfolio has to have a Net Present Value ("NPV") greater than unity. That CIT's existing fixed-in-size asset base is cash flow positive can be viewed as a form of "project finance" where the analysis takes place individual asset by individual asset. That CIT is continually consuming cash as it expands its receivables base can be viewed as "corporate finance" where the analysis recognizes that the enterprise's *modus operandi* is to grow by consuming cash, which cash is invested in earnings assets and which cash is generated in part by having CIT access the capital markets, especially credit markets, periodically.

"A majority of the Fund's equity investments are in the common stocks of companies that are extremely well capitalized and which have been acquired at prices that represent meaningful discounts from readily ascertainable NAVs. Obviously, for TAVF there is no Primacy of the Income Account."

PRIMACY OF THE INCOME ACCOUNT EXISTS ONLY FOR SHORT-RUN STOCK MARKET SPECULATORS

A majority of the Fund's equity investments are in the common stocks of companies that are extremely well capitalized and which have been acquired at prices that represent meaningful discounts from readily ascertainable NAVs. Obviously, for TAVF there is no Primacy of the Income Account.

Less obvious is the observation that the Fund's investment style is a lot more mainstream than is that of the short-run stock market speculators who emphasize the importance of periodic earnings per share as reported. First, TAVF tends to analyze the way creditors analyze, and of course, the amount of money invested in credit instruments of all types in our economy dwarfs the amount of funds invested in equities. Second, most people involved with investments are net worth conscious in the management of their own affairs rather than net income conscious. Their approach is "what is my portfolio worth and what is my total return," rather than "what can I expect in the way of dividends and interest." Most private companies, given a choice, seek to enhance NAV by means other than having reported operating income, which is taxable at maximum rates.

For many companies, there is no choice but to create wealth, *i.e.*, NAV, by having operating income: - NAV and operating income are each intimately related to each other. Nonetheless, this relationship hardly justifies a view that there exists a primacy of the income account for anyone other than a short-run stock market speculator who has a vital interest in what each day's closing price for a marketable security might be.

In fact, corporate and securities holders' wealth is created in four separate, but interrelated, ways. To emphasize any one, or two, of the four to the exclusion of the others is to misunderstand corporate finance. And the present trend of GAAP is to overemphasize two factors – cash flow from operations and reported earnings – with a consequent de-emphasis of other factors that are at least equally important. The four factors involved in corporate wealth creation are as follows:

1) Free cash flow from operations available for the common stock. This seems a relative rarity in the corporate world.

2) Earnings where earnings are defined as creating wealth while consuming cash. This is what most prosperous businesses seem to do. Earnings may be of limited, or no, value unless also combined with access to capital markets to finance cash shortfalls.

3) Asset redeployment and liability financing and refinancing. These activities include mergers and acquisitions, contests for control, diversification, the purchase and sale of businesses, the reorganization of troubled companies, liquidations, and spin-offs.

4) Access to capital markets on a super attractive basis. Probably more wealth has been created through this venue than any other, ranging from the ability of real estate entities to finance on a long-term, fixed, low interest rate, non-recourse basis to venture capitalists selling common stock into an IPO bubble.

On April 27, 2004, an interesting advertisement appeared in *The Wall Street Journal* put out by the Association for Investment Management and Research ("AIMR"). The advertisement to encourage the fair value method of expensing stock options illustrates some of what is wrong with mainstream security analysis. For example, the ad states, "Investors Want Earnings to Reflect Reality." In fact, investors really want full disclosure and objective benchmarks. Also the ad states, "Financial statements exist to help investors make informed investment decisions." That statement is just plain wrong from either a public policy point of view or a creditor's point of view. Financial statements exist to fulfill the needs and desires of many constituencies: managements, creditors, governments, customers, *etc.*

A number of academic texts seem off base also. For example, in *Financial Reporting and Analysis* by Revsine, Collins and Johnson 2nd edition, it is stated on page 12, "Investors who follow a fundamental analysis approach estimate the value of a security by assessing the amount, timing and uncertainty of future cash flows that will accrue to the company issuing the security." That statement is news to me and I've been a fundamental analyst for over 50 years. I do want to predict future cash flows and earnings, but also future wealth creation from whatever source. It is just plain wrong to state that current earnings and past earnings records are better tools for predicting future cash flows and earnings (not to mention future wealth creation in the form of realized or unrealized capital gains) than are the present assets in a business measured qualitatively and quantitatively. As a matter of fact, sensible, good predictors use all three: – current earnings, past earnings and the current balance sheet.

INVESTOR PROTECTION AND THE SECURITIES LAWS

The basic thrust of certain Federal Securities Laws - the Securities Act of 1933 and the Securities Exchange Act of 1934 - in the disclosure area was to provide full disclosures of all material facts to Outside Passive Minority Investors ("OPMIs"). How the OPMIs used that full disclosure information was up to them and there was the implicit conclusion that if the OPMI was not reasonably intelligent and reasonably diligent, the OPMI could and should suffer the consequences. As things developed, though, this became insufficient at least as far as GAAP are concerned. A theory grew up that not only should GAAP reflect reality without adjustment, but also the form of presentation became important. It was no longer good enough to disclose all material facts, but rather where the disclosures were made became highly important, by, say, requiring that an "expense" be charged to the income account rather than presenting the facts in footnotes (see the Stock Option Controversy). To me, this change in emphasis really does nothing to enhance Investor Protection.

In 1940, the U.S. enacted the Investment Advisors Act and the Investment Company Act. The Investment Company Act regulated mutual funds. For the first time, there was a statute providing substantive protections for OPMIs; they no longer had to be on their own, disclosure-wise, in using the full disclosure information provided. Rather, they could rely on professional advisers, the managers of investment companies.

Put simply, if an OPMI does not want to go to the trouble of being reasonably intelligent and reasonably diligent, the OPMI can hire well-qualified money managers who are closely regulated. In the mutual fund area, there seem to be a good-sized number of qualified managers over and above the managers of the several Third Avenue Funds. Such managers include those managing funds at, among others, First Eagle, Gabelli, Longleaf, Mutual Shares, Royce and Tweedy Browne.

PRINCIPLES, NOT RULES

Given that in a creditor type approach, the investor seeks objective benchmarks rather than reality or truth, it becomes unimportant that there exist volumes and volumes of specific rules. Rather, GAAP should be governed by general principles – the Company is a Stand-alone; there exists a Modifying Convention of Conservatism; there exists a Balanced Approach where any accounting member can be important rather than a Primacy of the Income Account Approach; and where the object of financial statements is to provide the user full disclosure, consistency and reconcilability. Full disclosure for TAVF purposes seems to mean that the GAAP figures and footnotes be such so that the analyst can figure out what documents are material, and that GAAP statements provide the user a good road map to follow in seeking to do "due diligence." Due diligence seems to mean "reasonable care under the circumstances."

Interestingly, other types of accounting systems have to be governed by rules. The prime example of a complex system of rules is the United States Internal Revenue Code ("IRC"). Under the IRC, or any tax code, there has to be a precise definition of what taxable income is; and thus the system probably has to be relatively complicated, governed by myriad rules, because its objective is to derive just one number – what the taxpayer's tax bill will be. This is just not the case for GAAP, where it can never provide more than objective benchmarks to be used as tools of analysis by users.

The United States has the best, most efficient, most honest, and deepest capital markets that have ever existed in the history of mankind. We ought to guard this national asset carefully. In our haste to satisfy the perceived needs of OPMIs, the U.S. is denigrating the quality, and depth, of U.S. capital markets. Already, and because of the Sarbanes-Oxley abomination, no foreign issuer who does not need to raise capital in the U.S. will subject their companies, and their executives, to U.S. jurisdiction. Thus, Toyota Industries, one of our largest common stock holdings, is unlikely to ever issue American Depository Receipts ("ADRs"). That is the Fund's loss and the American capital market's loss.

No modern economy can function well unless its financial institutions – both private and governmental – follow sound lending practices. A plethora of bad loans in an economy always leads to economic depressions, or worse, as witness the 10-12 year business depression in Japan; the economic crisis in Texas during the 1980's as bad energy loans had to be worked out; the savings and loan crisis in the U.S. in the late 1980's and early 1990's; and problems in Russia and Indonesia, among others, in the late 1990's. It would seem impossible, at least in the corporate arena, to have an economy follow sound lending practices unless the lenders are able to rely on audited financial statements, or the equivalent thereof, which provide good objective benchmarks, modified by a conservative bias. Thus, reliable GAAP remain essential not only to creditors, but also to the well functioning of the U.S. economy. Put simply, corporate creditors couldn't operate without GAAP to rely upon.

The vast majority of equity investment in the U.S. takes place through having corporations retain earnings rather than pay profits out to shareholders. Equity markets, by and large, are just too capricious, and expenses for corporate common stock offerings too great, for most corporate managements to rely much, if at all, on marketing equity issues on a reasonably regular basis in order to obtain needed or desired equity capital for companies. Having said that, it probably still remains true that the more diligent, the more intelligent, equity investors are as a group, the more efficiently the nation's resources will be channeled. I, for one, doubt very much that short-run stock market speculators in their buy-sell-hold decisions do much to enhance the quality of the channeling of resources in the economy. To me, the standards used by creditors result in a more productive channeling of resources. This is yet another reason GAAP ought to be directed primarily toward meeting the needs and desires of creditors.

From the points of view of creditors and value analysts who seek objective benchmarks from GAAP rather than "the truth," GAAP, in particular, and disclosure, in general, have never before been as complete, as comprehensible, and as useful, as they are now. This currently favorable disclosure situation seems to have been part of an inexorable trend which I think dates back to the Securities Acts Amendments of 1964. Specifically for Third Avenue, this means that I, as the manager, can be, and am, quite comfortable with the Fund's portfolio because the quantity and quality of disclosures now available are so good. This high quality situation could have been achieved just as well if GAAP had been directed toward filling the needs and desires of creditors rather than stock market speculators. Concentrating on the perceived needs and desires of stock market speculators, it seems to me, has placed unnecessary, and counter-productive, burdens on American corporations, American corporate management and American capital markets.

I will write you again when the Annual Report for the year to end October 31, 2004 is published.

Sincerely yours,

Martin J. Whitman
Chairman of the Board

Third Avenue Small-Cap Value Fund

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

Dear Fellow Shareholders:

At July 31, 2004, the end of the fiscal third quarter, the unaudited net asset value attributable to the 39,861,549 common shares outstanding of the Third Avenue Small-Cap Value Fund ("Small-Cap Value" or the "Fund") was $19.94 per share, compared with the Fund's unaudited net asset value of $19.26 per share at April 30, 2004, and an unaudited net asset value at July 31, 2003 of $15.65 per share adjusted for a subsequent distribution to shareholders. At August 31, 2004, the unaudited net asset value was $20.06 per share.

QUARTERLY ACTIVITY*

During the quarter, Small-Cap Value established six new positions, added to 25 of its existing positions, eliminated three positions and reduced its holdings in one company. At July 31, 2004, Small-Cap Value held positions in 71 common stocks, the top 10 positions of which accounted for approximately 25% of the Fund's net assets.

Number of Shares or Units	New Positions Acquired
184,600 shares	Advanced Fibre Communications, Inc. Common Stock ("AFCI Common")
117,200 shares	Bandag, Inc. Common Stock ("Bandag Common")
335,000 shares	K-Swiss, Inc. Common Stock ("K-Swiss Common")
362,798 shares	NewAlliance Bancshares, Inc. Common Stock ("NewAlliance Common")
165,800 shares	Pogo Producing Co. Common Stock ("Pogo Common")
120 options	Tejon Ranch Co. Common Stock Options ("Tejon Options")

* Portfolio holdings are subject to change without notice. The following is a list of Third Avenue Small-Cap Value Fund's 10 largest holdings, and the percentage of the total net assets each security represented, as of July 31, 2004: Brascan Corp. (Class A), 3.25%; Kmart Holding Corp., 2.78%; CommScope, Inc., 2.75%; LNR Property Corp., 2.64%; TimberWest Forest Corp., 2.62%; Forest City Enterprises, Inc. (Class A), 2.47%; The St. Joe Company, 2.18%; Electro Scientific Industries, Inc., 2.17%; E-L Financial Corp., Ltd., 2.07%; and Trinity Industries, Inc., 1.87%.

Number of Shares or Units	Increases in Existing Positions
30,400 shares	American Power Conversion Corp. Common Stock ("American Power Common")
113,200 shares	AMN Healthcare Services, Inc. Common Stock ("AMN Common")
32,900 shares	Arch Capital Group, Ltd. Common Stock ("Arch Capital Common")
25,000 shares	CommScope, Inc. Common Stock ("CommScope Common")
259,462 shares	Credence Systems, Corp. Common Stock ("Credence Common")
5,000 shares	The Dress Barn, Inc. Common Stock ("Dress Barn Common")
35,000 units	Fording Canadian Coal Trust Units ("Fording Units")
60,974 shares	Herley Industries, Inc. Common Stock ("Herley Common")
100,700 shares	Hutchinson Technology, Inc. Common Stock ("Hutchinson Common")
10,000 shares	LNR Property Corp. Common Stock ("LNR Common")
15,000 shares	Montpelier Re Holdings, Ltd. Common Stock ("Montpelier Common")
1,840 shares	Pharmaceutical Product Development, Inc. Common Stock ("PPDI Common")
50,000 shares	The Phoenix Companies, Inc. Common Stock ("Phoenix Common")

Number of Shares or Units	Increases in Existing Positions (continued)
5,000 shares	Precision Drilling, Corp. Common Stock ("Precision Common")
239,800 shares	Quanta Services, Inc. Common Stock ("Quanta Common")
137,400 shares	Russ Berrie & Co., Inc. Common Stock ("Russ Berrie Common")
12,800 shares	The St. Joe Company Common Stock ("St. Joe Common")
105,300 shares	St Mary Land and Exploration Co. Common Stock ("St. Mary Common")
84,300 shares	Superior Industries International, Inc. Common Stock ("Superior Common")
160,515 shares	Sycamore Networks, Inc. ("Sycamore Common") Common Stock
36,007 shares	Tejon Ranch Co. Common Stock ("Tejon Common")
35,000 shares	Tidewater, Inc. Common Stock ("Tidewater Common")
10,000 units	Timberwest Forest Corp. Units ("Timberwest Units")
1,300 shares	Trammell Crow Co. Common Stock ("Trammell Crow Common")
172,378 shares	Whiting Petroleum Co. Common Stock ("Whiting Common")
	Decrease in Existing Position
176,800 shares	Advanced Power Technology, Inc. Common Stock ("APT Common")
	Positions Eliminated
366,054 shares	Equity Oil Co. Common Stock ("Equity Oil Common")

Number of Shares	Positions Eliminated (continued)
74,600 shares	Maxwell Shoe Company, Inc. Common Stock ("Maxwell Shoe Common")
170,300 shares	The MONY Group, Inc. Common Stock ("MONY Group Common")

DISCUSSION OF QUARTERLY ACTIVITY

It was a relatively busy quarter as heightened market volatility provided improved buying opportunities, enabling Fund management to initiate several new positions, and to increase the size of several of the Fund's existing portfolio holdings.

Fund management continued to increase its exposure to the energy sector with the purchase of Pogo Common. Pogo explores for and produces oil and natural gas from reserves located both onshore and offshore in the United States, Thailand, the North Sea and New Zealand. Shares were purchased opportunistically after the stock fell in response to the company's announcement of disappointing results at a specific development well in Hungary. Pogo continues to collect data and to drill in Hungary. Shares were purchased at approximately 4x estimated 2004 operating cash flow, 10x estimated 2004 earnings, and at a modest discount to our estimate of the company's takeover value. Pogo boasts very strong financials as evidenced by its modest debt levels and significant free cash flow generation.

In a similarly opportunistic fashion, Fund management initiated a position in K-Swiss Common. Founded in 1966 by two Swiss brothers, K-Swiss designs and markets various athletic footwear for sports use, fitness activities, and casual wear. Investor pessimism about renewed competition from Nike and a weaker near-term earnings outlook have contributed to a 35% decline in the share price over the past six months. Fashion whims and a feverish competitive landscape aside, K-Swiss seems to share many of the same positive attributes that we identified in Maxwell Shoe (one of the Fund's holdings recently acquired by Jones Apparel), namely, prodigious cash flow generation, a motivated management team, a strong balance sheet, and a terrific long-term track record. At the current quote, and adjusting for cash on the balance sheet, shares trade at roughly 11x trailing, after-tax earnings.

Bandag operates in two related business lines. Approximately 70% of the company's business derives from the sale of precured tread rubber and equipment, sold to Bandag's network of 1,020 franchises worldwide. The rubber and equipment is then used by the franchisees for the retreading of tires, primarily for trucks. Bandag also provides new and retread tires and tire management services, operating 19 Bandag franchises and manufacturing locations and 48 commercial and retail outlets in 10 states. Retreads appear to be both cost effective and environmentally friendly. The leader in its industry, Bandag generates significant free cash flow, produces attractive returns on capital and has high insider ownership (admittedly via a dual class share structure). Shares were purchased at approximately 12x to 13x after-tax earnings and roughly 1.8x GAAP book value.

NewAlliance Bancshares is the amalgamation of New Haven Savings Bank, a Connecticut chartered savings bank (recently converted from mutual to public ownership); Connecticut Bancshares, a thrift headquartered in Manchester, Connecticut; and Alliance Bancorp of New England. With approximately $6.2 billion in assets, and a highly-regarded management team, NewAlliance appears to have a potentially attractive franchise in an industry that continues to undergo massive consolidation. Shares were purchased at a small premium to GAAP book value, and at a misleadingly high PE, one that reflects the bank's currently underemployed capital base.

As originally conceived, the Fund's purchase of AFCI Common in late May centered on the company's publicly announced agreement to merge with Tellabs, a Fund holding that extends back more than two years, in a cash and stock deal. With an enviable competitive position in the burgeoning DSL and Fiber to the Premise (FTTP) markets, a cash rich balance sheet, and a respectable earnings record – and a deal value that seemed to make sense – Advanced Fibre Communications appeared to be a very sensible partner for Tellabs. Interested in potentially increasing our stake in Tellabs, but also finding AFCI Common an attractive investment on its own, Fund management elected to purchase AFCI Common as that approach yielded a slight arbitrage opportunity (*i.e.,* investors could effectively purchase Tellabs at a small discount based on the announced deal terms).[1] The arbitrage equation became more tenuous after Advanced Fibre announced disappointing earnings results and that it had missed a contract milestone with Verizon Communications (NYSE: VZ), a key customer. Nevertheless, from a number of standpoints, it seems highly likely that Tellabs and AFCI will forge ahead with their deal, albeit on modified terms. As it stands, the Fund has added to its still-modest position in AFCI Common.

The Fund received options in Tejon Ranch Common and increased its holdings in Tejon Ranch Common as part of a private placement of common stock in which the Fund participated. A fuller explanation of the investment can be found in Michael Winer's letter to the Third Avenue Real Estate Value Fund shareholders, which follows this one.

"Our portfolio companies, almost without exception, possess impregnable balance sheets that translate into long-term corporate staying power, and that serve as cushions for the businesses underlying our securities holdings."

All three positions eliminated from the portfolio during the quarter resulted from merger and acquisition activity. Jones Apparel Group (NYSE: JNY) completed its tender offer for Maxwell Shoe at $23.25 per share, a price significantly higher than Jones' original bid of $20 per share, and nearly twice the Fund's cost basis. AXA Group completed its hotly disputed acquisition of MONY Group, a disappointing outcome from my perspective, but one that only reinforced the importance of being price conscious. Equity Oil, as alluded to in last quarter's shareholder letter, was purchased by Whiting Petroleum, another Fund holding.

Even as the stock market continues to encounter head winds, I have never been more comfortable with TAM's investment philosophy, and how we are applying it, than I am today. TAM's "Safe and Cheap" mantra not only appears to be particularly well-suited for the inevitable bouts of "bad weather," but also confers a number of advantages on investors with a long-term time horizon.

Our portfolio companies, almost without exception, possess impregnable balance sheets that translate into long-term corporate staying power, and that serve as cushions for the businesses underlying our securities holdings. With the Fund's above average cash levels today, the Small-Cap Value Fund portfolio contrasts markedly with those of others who own the common stocks of debt-laden companies, or whose investment portfolios are leveraged in an attempt to improve short-term performance.

[1] For purposes of TAM's arbitrage analysis, we assume a reasonable worst-case scenario (*e.g.*, a deal falls apart), placing a premium on having a high degree of comfort with owning the acquiree's shares based on their own merit.

As we get reminded every quarter, brokerage house analysts, much of the investing public, the media and corporate America tend to get lost in the noise of short-term earnings results (a.k.a. being “outlook conscious”), focusing on what the numbers are, rather than what the numbers might mean. At TAM, by contrast, our analysts remain focused on longer-term business fundamentals and, above all else, on being price conscious in their security selection. The reported-earnings myopia that engulfs much of the investment community does periodically create terrific opportunities for the Fund, however, and for that, we are grateful.

We don’t grade our analyst team on the short-term results of their stock picks. (We often joke that, if we did, we would all be unemployed!) Doing so would mean incorporating guesses about the future direction of the markets, and even worse perhaps, trying to “pick the bottom” for an individual security, activities for which we readily admit to having no skills or advantages. Instead, we try to foster an environment of intellectual freedom, one that encourages a focus on long-term business trends, and “good enough” pricing in the context of holding a security over a three to five year time frame. We also recognize that near-term price performance should be relatively unimportant for patient, long-term investors.

As the summer begins to wind down, I am reminded that during the past year we have added significantly to our analyst team. Early signs suggest that these new analysts are not only internalizing TAM’s philosophy, some of which I have touched on above, but also are learning to apply it well, successfully identifying many of the new positions I have written about in recent letters. It is particularly gratifying for me and other senior members of the investment staff that they have embraced an investment philosophy that not only makes undeniable sense, but seems to have served investors so well over the long-term.

I look forward to writing you again at the end of the Fund’s fiscal year ending October 31, 2004.

Sincerely,

Curtis R Jensen

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

Third Avenue Real Estate Value Fund

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

Dear Fellow Shareholders:

At July 31, 2004, the end of the third fiscal quarter of 2004, the unaudited net asset value attributable to the 54,996,570 shares outstanding of the Third Avenue Real Estate Value Fund (the "Fund") was $23.22 per share. This compares with an unaudited net asset value of $21.53 per share at April 30, 2004, and an unaudited net asset value at July 31, 2003 of $18.27 per share, adjusted for subsequent distributions to shareholders. At August 31, 2004, the unaudited net asset value was $24.32 per share.

QUARTERLY ACTIVITY*

During the third quarter of fiscal 2004, the Fund's outstanding shares increased to 54.9 million shares from 50.1 million shares – an increase of 9.6%; net assets increased from $1.08 billion to $1.28 billion – an increase of 18.5%; and net asset value per share increased from $21.54 to $23.22 – an increase of 7.8%. Cash and short-term investments at quarter-end totaled 19.4% of net assets, compared to 13.3% at the end of the last fiscal quarter. The following summarizes the Fund's investment activity during the quarter.

Principal Amount or Number of Shares	New Positions Acquired
$1,228,000	Brookfield Homes Corp. 12% Senior Subordinated Notes due 6/30/20 ("Brookfield Notes")
CDN $3,333,300	Sterling Centrecorp 8.5% Convertible Debentures due 12/31/09 ("Sterling Debentures")
71,984 shares	Tejon Ranch Co. Common Stock (Restricted) ("Tejon Common")
17,988 options	Tejon Ranch Co. Common Stock Options, $32.41 Strike Price, Expiration 9/7/04 ("Tejon September Options")
6,087 options	Tejon Ranch Co. Common Stock Options, $35.65 Strike Price, Expiration 12/7/04 ("Tejon December Options")

* Portfolio holdings are subject to change without notice. The following is a list of Third Avenue Real Estate Value Fund's 10 largest holdings, and the percentage of the total net assets each security represented, as of July 31, 2004: The St. Joe Company, 9.05%; LNR Property Corp., 8.27%; Forest City Enterprises, Inc., (Class A) 7.77%; Catellus Development Corp. 6.62%; Brascan Corp., 5.54%; Vornado Realty Trust, 4.33%; ProLogis Trust 3.88%; PS Business Parks, Inc., 3.66%; Brookfield Properties Corp., 3.03%; and Kmart Holding Corp., 2.88%.

Principal Amount or Number of Shares	New Positions Acquired (continued)
45,000 shares	Capital Lease Funding, Inc. Common Stock ("Capital Lease Common")
320,869 shares	Criimi Mae, Inc. Common Stock ("Criimi Mae Common")
1,460,000 shares	Killam Properties, Inc. Common Stock (Restricted) ("Killam Common")
	Increases in Existing Positions
$4,250,000	Frank's Nursery & Crafts, Inc. 10.15% First Mortgage Revolving Credit Loan due 5/21/05 ("Frank's Revolver")
192,800 shares	Acadia Realty Trust Common Stock ("Acadia Common")
150,000 shares	American Financial Realty Trust Common Stock ("American Financial Common")
30,000 shares	Anthracite Capital, Inc. Common Stock ("Anthracite Common")
227,700 shares	CRT Properties, Inc. Common Stock ("CRT Common")
64,600 shares	First Capital Realty, Inc. Common Stock ("First Capital Common")
110,100 shares	Forest City Enterprises Class A Common Stock ("Forest City Common")
40,200 shares	LNR Property Corp. Common Stock ("LNR Common")
25,000 shares	Prologis Common Stock ("Prologis Common")
82,400 shares	PS Business Parks, Inc. Common Stock ("PSB Common")
159,500 shares	The St. Joe Company Common Stock ("St. Joe Common")
23,300 shares	Trammell Crow Company Common Stock ("Trammell Common")

Principal Amount or Number of Shares	Decreases in Existing Positions
$1,208,132	Frank's Nursery & Crafts, Inc. 10.15% First Mortgage Term Loan due 5/21/05 ("Frank's Term Loan")
500,000 shares	Brookfield Properties Corp. Common Stock ("Brookfield Common")
	Positions Eliminated
133,332 shares	Anthracite Capital, Inc. 10% Series B Preferred Stock ("Anthracite Preferred")
736,950 shares	Canary Wharf Group PLC Common Stock ("Canary Common")
44,958 warrants	Lodgian, Inc. Class A Warrants ("Lodgian A Warrants")
8,966 warrants	Lodgian, Inc. Class B Warrants ("Lodgian B Warrants")
823,526 shares	Modtech Holdings, Inc. Common Stock ("Modtech Common")

DISCUSSION OF QUARTERLY ACTIVITY

During the quarter ended July 31, 2004, the Fund initiated new positions in the common stocks of two mortgage REITs (Capital Lease Common and Criimi Mae Common), the senior subordinated notes of Brookfield Homes and the convertible debentures of Sterling Centrecorp. Additionally, the Fund acquired restricted common stock and options in Tejon Ranch Co. and restricted common stock of Killam Properties, Inc. The Fund eliminated its positions in Anthracite Preferred, Canary Common, Lodgian Warrants and Modtech Common. The balance of the quarter's activity consisted of increasing positions in many of the Fund's existing holdings as opportunities arose to buy at discounted prices.

The Fund received Brookfield Notes as part of a $9.00 per share special dividend paid by Brookfield Homes. The dividend was paid one-half in cash and one-half in Brookfield Notes. The Brookfield Notes, which are unsecured obligations of the company, mature on June 30, 2020, but can be redeemed by the company at any time at par. The Fund purchased Cdn. $3,333,300 face amount of Sterling Debentures at 90% of par, pursuant to an agreement with Sterling Centrecorp in which the Fund and another investor agreed to invest up to Cdn. $20 million to assist the company in funding a tender offer to holders of existing debentures that mature in December 2004. The Sterling Debentures are convertible into Sterling Common at Cdn. $2.50 per share.

Tejon Ranch Co. raised $40 million in a private placement of common stock. Proceeds from the offering will be used to fund the company's efforts to secure real estate development entitlements for its planned residential projects and to construct infrastructure improvements on its industrial and commercial development. The Fund participated in the private placement along with the Third Avenue Small-Cap Value Fund and another institutional investor. The Fund purchased 71,984 unregistered shares at $32.41 per share, representing a discount of approximately 10% from the market price of Tejon Common. The Fund also received options to purchase an additional 17,988 shares at $32.41 per share and 6,087 shares at $35.65 per share. The options expire September 2004 and December 2004, respectively. The company subsequently filed a registration statement with the SEC. The Fund's shares became fully registered on June 9, 2004, the effective date of the registration statement.

The Fund established small positions in Criimi Mae Common and Capital Lease Common. Criimi Mae is a mortgage REIT that invests in commercial mortgage-backed securities (CMBS). The company filed for bankruptcy in October 1998 and emerged as a reorganized company in April 2001. In January 2003, Brascan Real Estate Fund (an affiliate of Brascan Corporation) recapitalized the company and installed a new management team. The recapitalization resulted in a much stronger balance sheet and should enable the company to expand its business platform beyond special servicing into the commercial loan origination business. The company's portfolio consists of primarily below investment-grade and unrated CMBS. The Fund purchased Criimi Mae Common at a substantial discount to estimated net asset value. Capital Lease Funding is a mortgage REIT that recently completed its initial public offering. Since 1994, the company has been in the business of originating, selling and securitizing loans secured by mortgages on commercial properties net leased to high-quality credit tenants. The company has an excellent track record of underwriting and originating loans. Since its inception, the company has no known defaults or delinquencies on its loans. The IPO was completed in March 2004 at $10.50 per share, which represented a 13% premium over book value. Recent fears of rising interest rates created an opportunity buy Capital Lease Common at book value, which seems cheap for a specialty finance company with an impressive track record and very clean balance sheet.

The Fund sold its position in Modtech Common based on our assessment that the company's business is too dependent upon California's voters continuing to approve bond issues for school construction. While Modtech's backlog of contracts with California schools has continued to increase, the conversion of backlog to revenue has been extremely slow and management's projections have become less credible. The Fund realized a small loss on its investment in Modtech Common. Canary Wharf Common was sold upon shareholder approval of a takeover bid for the company. The Fund realized more than a 100% gain on its investment in

Canary Common. Anthracite Preferred was redeemed by the company for $25 per share. The Fund acquired Anthracite Preferred in July 2001. Including the quarterly dividends, the total return on Anthracite Preferred was approximately 56%.

"The Fund's growth, however, has forced us to work harder to find suitable investments. (No complaints from this manager – it is actually fun coming to work every day.)"

DOES SIZE MATTER?

The table below illustrates the Fund's growth since inception.

Quarter Ended	Net Assets ($000's)	Outstanding Shares (000's)	NAV Per Share ($)
10/31/1998	713	69	10.28
1/31/1999	3,545	328	10.82
4/30/1999	6,182	549	11.26
7/31/1999	7,883	671	11.74
10/31/1999	8,312	750	11.09
1/31/2000	11,312	1,042	10.85
4/30/2000	18,783	1,556	12.07
7/31/2000	20,627	1,580	13.05
10/31/2000	23,965	1,756	13.64
1/31/2001	34,949	2,422	14.43
4/30/2001	43,987	3,027	14.53
7/31/2001	65,246	4,106	15.89
10/31/2001	97,236	6,466	15.04
1/31/2002	178,410	11,086	16.09
4/30/2002	299,137	17,426	17.17
7/31/2002	319,500	19,687	16.23
10/31/2002	331,997	21,112	15.73
1/31/2003	344,405	21,905	15.72
4/30/2003	389,986	23,246	16.78
7/31/2003	508,337	27,041	18.80
10/31/2003	646,979	32,073	20.17
1/31/2004	927,196	41,942	22.11
4/30/2004	1,077,598	50,057	21.53
7/31/2004	1,277,096	54,997	23.22

Since the Fund's inception in September 1998, I have often been asked how large the Fund can grow before Fund management runs out of good investment ideas. Conventional wisdom, scholars and analysts say that increased fund size can lead to weaker performance as the fund grows, especially for funds that invest in small-cap and/or illiquid stocks. On the other hand, one could argue that there are advantages to scale, such as lower expenses and more resources for research. Additionally, a fund that is part of a larger fund family which uses a uniform investment discipline for all of its funds (like Third Avenue), has more resources to draw upon for generation of suitable investment ideas. Good examples of this are the Fund's investments in Kmart Common and Winn Dixie Notes, both investment ideas that were generated by Third Avenue's research team.

There is no doubt that the universe of investment ideas is more limited for a billion dollar plus fund than a fund one-tenth its size. During the Fund's first three years of existence, we were able to make many opportunistic investments in common stocks of very small-cap real estate companies in addition to building a core portfolio of high-quality real estate operating companies and REITs. The Fund's recent growth, while dramatic, has not forced us to change our investment philosophy. The Fund's growth, however, has forced us to work harder to find suitable investments. (No complaints from this manager – it is actually fun coming to work every day.) We continue to look for investment ideas that meet our "safe and cheap" criteria, but we are looking in a few new places. As I have noted in recent Fund quarterly letters, the Fund's exposure to non-U.S. based companies has increased and we have made several non-traditional real estate investments that set us apart from our peers (*e.g.,* Kmart Common, Winn Dixie Notes, Sterling Debentures and Frank's Mortgage Loans). I expect that in the future, we will get involved in more investments of this ilk in addition to increasing our investments in the Fund's core holdings. Based on the Fund's performance track record, I am confident that the Fund's size has not been an issue and it has not created problems finding new investment ideas. In fact, we are seeing more unique investment ideas than in the past because of our size and non-traditional approach to investing in real estate securities (*i.e.,* many ideas are brought to us instead of us having to search for them). The Fund's size has also enabled us to attract an experienced senior analyst and substantially reduce the Fund's expense ratio.

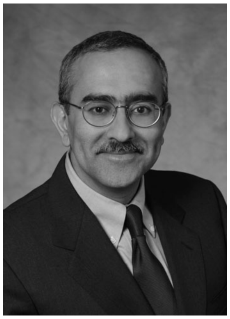
With the Fund's recent growth, it became apparent that, in order to thoroughly analyze new investments and monitor existing investments, Fund management was in need of additional real estate expertise. In this regard, I am very pleased to report that my long search for a senior real estate analyst has finally borne fruit. Jason Wolf recently joined Third Avenue Management and is primarily dedicated to finding and analyzing new investments in real estate and real estate related companies. Jason's background in direct real estate investments, credit analysis and as a buy-side real estate securities analyst will greatly add to our ability to continue the Fund's track record of producing above-average returns with below average risk.

I look forward to writing to you again when we publish our Annual Report for the period ending October 31, 2004.

Sincerely,

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

Third Avenue International Value Fund



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

Dear Fellow Shareholders:

At July 31, 2004, the unaudited net asset value attributable to the 17,367,435 shares outstanding of the Third Avenue International Value Fund (the "Fund") was $15.57 per share, compared with the Fund's unaudited net asset value at April 30, 2004 of $14.95 per share, and an unaudited net asset value at July 31, 2003 of $11.45, adjusted for a subsequent distribution to shareholders. At August 31, 2004, the unaudited net asset value was $15.90 per share.

QUARTERLY ACTIVITY*

In the most recent quarter, the Fund established a new position in the common shares of one company, increased our holding in Norwegian Government debt, and added to positions in the common shares of 17 companies.

Principal Amount or Number of Shares	New Position Acquired
3,575,000 shares	Zinifex, Ltd. Common Stock ("Zinifex Common")
	Increases in Existing Positions
NOK 14,000,000	Norwegian Govt. 5.75% 11/30/04
149,600 shares	Aker Kvaerner ASA Common Stock ("AK Common")
14,600 shares	Asatsu-DK Inc Common Stock ("Asatsu Common")
1,530,000 shares	Boardroom Ltd. Common Stock ("Boardroom Common")
1,071,832 shares	BRIT Insurance Holdings plc Common Stock ("BRIT Common")
73,140 shares	Cap Gemini S.A. Common Stock ("Cap Gemini Common")

* Portfolio holdings are subject to change without notice. The following is a list of Third Avenue International Value Fund's 10 largest holdings, and the percentage of the total net assets each security represented, as of July 31, 2004: Toll NZ, Ltd., 4.94%; Aker Kvaerner ASA, 3.41%; Oslo Bors Holding ASA, 2.94%; Canfor Corp., 2.56%; Rubicon Ltd., 2.55%; Ganger Rolf ASA, 2.51%; BRIT Insurance Holdings PLC, 2.40%; Chuan Hup Holdings, Ltd., 2.36%; Smedvig ASA Class A, 2.29%; and Hutchison Whampoa, Ltd., 2.29%.

Number of Shares or Units	Increases in Existing Positions (continued)
42,844 shares	Cresud SACIFYA ADR (“Cresud ADR”)
1,192,000 shares	Del Monte Pacific, Ltd. Common Stock (“Del Monte Common”)
257,100 shares	Dundee Precious Metals, Inc. Common Stock (“Dundee Common”)
49,600 shares	Farstad Shipping ASA Common Stock (“Farstad Common”)
15,000 shares	Fomento de Construcciones y Contratas S.A. Common Stock (“FCC Common”)
5,000 shares	Ganger Rolf ASA Common Stock (“Ganger Common”)
5,000,000 shares	Hotung Investment Holdings Ltd. Common Stock (“Hotung Common”)
250,000 shares	Hutchison Whampoa Ltd. Common Stock (“Hutchison Common”)
32,000 shares	Oslo Bors Holdings ASA Common Stock (“Oslo Bors Common”)
3,787,123 shares	Rubicon Ltd. Common Stock (“Rubicon Common”)
20,000 shares	Smedvig ASA-A Shares Common Stock (“Smedvig Common”)
1,865,000 shares	Toll NZ Ltd. Common Stock (“Toll NZ Common”)

REVIEW OF QUARTERLY ACTIVITY

The sole new purchase this quarter was Zinifex Common. Zinifex Ltd. (“Zinifex”), a relatively new Australian company, was capitalized to purchase some of the mines and the smelters of Pasminco Ltd. (“Pasminco”), a zinc-lead producer, which filed for bankruptcy protection as a result of high levels of indebtedness and an ill-conceived hedging strategy. The acquisition of these assets made Zinifex one of the world’s largest integrated zinc-lead producers. The company’s principal asset is the Century mine, which is among the lowest cost zinc mines worldwide, and which has been profitable at even the lowest zinc price realizations in its operating history. Zinifex is well capitalized and without any of the above-noted hedges employed by Pasminco. Notwithstanding the currently poor zinc prices, the company has been generating cash in excess of its reinvestment needs and is likely to be debt free by the end of is first full year as a listed company, absent any surprises, such as unusual spending initiatives undertaken by the management. Zinifex Common was purchased at prices that represent a discount to the Net Asset Value (“NAV”) estimated using the currently depressed zinc pricing for the remainder of the mine lives. While there is no guarantee that pricing will not deteriorate further from current levels, we suspect that the depth and period of such a decline might be limited given that a number of mines have operating costs in excess of the current price levels, which could prompt mine closures, and curtail supply. More significantly, the longer-term impact of the current poor pricing will be to continue to stifle new exploration for and investment in productive mining capacity.

The Fund added to a number of holdings, notable among which are Toll NZ Ltd. (“Toll NZ”), formerly known as Tranz Rail Holdings Ltd. (“Tranz Rail”) and Rubicon Ltd. (“Rubicon”). As we noted in the quarterly letter for the period ended October 31, 2003, Tranz Rail-the New Zealand transportation company that was the subject of a takeover bid from Toll Holdings Ltd. (“Toll Holdings”), an Australian operator of railroads. Since we felt the bid was at an unrealistically low price in relation to the value of the company, we chose not to tender our shares. While Toll Holdings now controls Toll NZ, the shares tendered to Toll Holdings fell short of the 90% necessary to eliminate the minority shareholders. Since then, Toll NZ has signed an agreement with the New Zealand Government to sell the tracks to the Government for a nominal sum, while retaining the right to use them for a fee. In essence, this reduces sharply Toll NZ's capital expenditure required for track maintenance. Toll Holdings, unlike Toll NZ, has historically been a particularly cost conscious operator of railroads, which would suggest the dawning of a new era for Toll NZ. In addition, given the continued consolidation of trucking companies in that country that compete with it, we suspect that the prospects for Toll NZ are brighter than they have been in a long time.

". . . our estimates of value often tend to lie well below those of most others. This is to say, a price, which appears to us to be at a premium to our NAV estimate, might well lie at a discount to others' valuations, possibly even to a transaction price for the company. So we endeavor to resist the temptation to sell at small premiums to NAV, preferring instead to do so when a security is unambiguously and egregiously overvalued, by whatever yardstick employed."

In the previous quarterly letter, we noted that Rubicon was bidding to increase its holding in Tenon Ltd. ("Tenon"), previously known as Fletcher Forest Ltd., to 50.01%. It has since succeeded in attaining that goal following a small increase in the bid price. We believe that this purchase of Tenon was effected at an attractive valuation. We were able to add to our holding in Rubicon at prices which represent a discount to its NAV, which was estimated with Tenon at current market prices, which we believe might well understate Tenon's value.

NAVS, PRICE TARGETS AND SELL "DISCIPLINE"

"Turnover usually indicates a failure of judgment. It's extremely difficult to figure out when to sell anything. So I would rather have the stock taken away from me in a merger or buyout. It's much easier."

—Philip Carret, (Forbes, 1994)

Much of the discussion in these quarterly letters has revolved around the purchase of securities; little has been said about how we approach securities' sales. Since we employ the NAV as a benchmark for the valuation of a security and endeavor to make our purchases at a discount to the NAV, a simple extrapolation of this practice would suggest that we sell securities priced at or somewhat above NAV. Indeed investors often equate NAVs with 'price targets', the prospective sale price of a security. Such an approach is markedly different from that taken by the Fund. There are a few reasons for this:

—NAVs are not as static as might be suggested by the idea of using them as a determinate price target. Any competently managed company, operating in a reasonable environment, should, over time, experience a rising NAV, be it via reported earnings or by unrealized increases in asset values. In addition to the conventional sources of changes in the NAV, such as operating earnings or changes in the value of assets (or liabilities), resource conversions, often unanticipated, can not only reshape a company, but also markedly affect the NAV. Inevitably, the price tracks NAV, however, approximately. Accordingly, the purchase of a security at a significant discount to NAV, followed by a holding period over which such potential increases in NAV (and corresponding price appreciation) might be experienced, could present an attractive opportunity for the compounding of value while blunting the impact of transaction costs or taxation, which would be experienced were one to sell a security as it reached its NAV, at that time.

—NAV estimates are just that — estimates. Such estimates are intimately dependent upon the methodology and assumptions employed to value the assets and the businesses of a company. Our valuations generally tend to reflect conservatism in both the methodology and assumptions, and often incorporate a number of potential contingencies, which ultimately may or may not eventuate. As a result, our estimates of value often tend to lie well below those of most others. This is to say, a price, which appears to us to be at a premium to our NAV estimate, might well lie at a discount to others' valuations, possibly even to a transaction price for the company. So we endeavor to resist the temptation to sell at small premiums to NAV, preferring instead to do so when a security is unambiguously and egregiously overvalued, by whatever yardstick employed.

In addition to above-noted considerations relating to securities' valuation, sales can stem from both security-specific and portfolio-related considerations. Security-specific considerations might include: the original investment thesis no longer holding true *e.g.,* the security no longer meets the criteria of being a "safe and cheap" investment, resource conversion, *e.g.,* takeovers can also be a source of securities exiting a portfolio. Portfolio-related considerations might include tax-related sales, or sales in response to the cash needs of a portfolio, *etc.*

The turnover numbers during the Fund's history have been 0% for the 10-month period ended October 2002 and 4% turnover for the one year ended October 2003; comprised 0% due to price appreciation, 2.3% due to takeovers/resource conversions and 1.7% because the security no longer met our investment requirements. For the six-month period ended April 30, 2004, the turnover was 5%, and the corresponding numbers by nature of sale were 2.2%, 0.5% and 2.3%, respectively. The relatively low level of turnover due to the appreciation of the security, notwithstanding the appreciation of a number of our holdings over their purchase prices, reflects our investment approach of buying and holding securities for the long term. This is not intended to suggest that future turnover in the Fund might continue at these levels. It might be materially higher, or possibly lower reflecting *inter alia,* resource conversions, valuations of the securities held, *etc.*

Above all, this investment approach focuses upon the avoidance of investment risk, valuation of assets and businesses to arrive at an estimate of the NAV, and effecting purchases at a meaningful discount to the estimated NAV, but provides limited guidance in the determination of an appropriate price for the sale of a security for the reasons noted above.

GEOGRAPHICAL DISTRIBUTION OF INVESTMENTS

At the end of July 2004, the geographical distribution of securities held by the Fund was as follows:

Country	%
Norway	13.00
Canada	11.43
New Zealand	9.36
Singapore	6.49
Japan	5.65
France	4.33
Hong Kong	3.83
United Kingdom	3.06
Australia	1.75
Spain	1.67
Panama	1.45
Argentina	0.84
Sweden	0.64
Switzerland	0.45
Equities Total	63.95
Foreign Government Debt	6.15
Cash & Other	29.90
Total	100.00

Portfolio holdings are subject to change without notice.

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

I am happy to report that Jakub Rehor has recently joined Third Avenue Management to work with me as Senior Research Analyst and to support me in identifying and analyzing new opportunities in the international arena. Like the other analysts who have joined us in the past several years, Jakub sought us out at Third Avenue because of our investment discipline, which fit well with his own convictions. Jakub's experience in investing in international equities for seven years has made him appreciate the merits of a "safe and cheap" investment philosophy. He will contribute his knowledge of Asian and European businesses in the financial, healthcare, and transportation sectors, and help us broaden the coverage of potential investment opportunities.

I look forward to writing to you again when we publish our Annual Report for the period ended October 31, 2004.

Sincerely,

Amit Wadhwaney
Portfolio Manager,
Third Avenue International Value Fund

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