THIRD AVENUE VALUE FUND

THIRD AVENUE SMALL-CAP VALUE FUND

THIRD AVENUE REAL ESTATE VALUE FUND

THIRD AVENUE INTERNATIONAL VALUE FUND

LETTERS TO OUR SHAREHOLDERS

Fourth Quarter Commentary

October 31, 2004

M.J. Whitman LLC Distributor. Date of first use 12/27/2004.

Third Avenue Value Fund

MARTIN J. WHITMAN
CO-CHIEF INVESTMENT OFFICER & PORTFOLIO MANAGER OF THIRD AVENUE VALUE FUND

Dear Fellow Shareholders:

At October 31, 2004, the audited net asset value attributable to the 78,864,234 common shares outstanding of the Third Avenue Value Fund ("TAVF", "Third Avenue", or the "Fund") was $48.16 per share. This compares with an unaudited net asset value at July 31, 2004 of $45.45 per share and an audited net asset value at October 31, 2003 of $40.31 per share, adjusted for a subsequent distribution. At December 20, 2004, the unaudited net asset value was $51.29 per share.

QUARTERLY ACTIVITY*

Four common stock positions were initiated during the quarter and four common stock positions were expanded. One small acquisition, JAKKS Common, occurred because a market panic permitted the Fund to buy into the issue at what appeared to be an ultra-depressed price. Suncor Common, the leading Canadian Tar Sands producer of synthetic petroleum, was acquired at a price of around 12 times current earnings. If the Middle East is to continue to be marked by political instability and/or a decline curve is about to set in for Middle East oil production, then the huge amount of oil reserves present in the Canadian Tar Sands ought to become increasingly valuable. If so, the investment in Suncor Common could prove to be a long-term bonanza for TAVF.

The other six issues acquired during the quarter were the common stocks of extremely well-financed issuers, which were selling at very substantial discounts from readily ascertainable Net Asset Values ("NAVs"). All six common stocks are the issues of non-US companies, although two of them, Brascan Corporation, a Canadian Company; and Toyota Industries, a Japanese Company, have meaningful properties and operations in this country. Pargesa is based in Switzerland. Liu Chong Hing Bank, Guoco Group, and Hutchison Whampoa are based in Hong Kong with important operations in, among other places, the People's Republic of China and Singapore.

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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 October 31, 2004: Kmart Holding Corp., 8.83%; Toyota Industries Corp., 5.96%; The St. Joe Company, 3.80%; Millea Holdings, Inc. ADR, 3.68%; Brascan Corp. (Class A), 3.37%; Tejon Ranch Co., 3.23%; MBIA Inc., 2.71%; USG Corp. 8.50% Senior Notes, 2.69%; Forest City Enterprises, Inc. (Class A), 2.56%; and USG Corp. 9.25% Senior Notes, 2.50%.

The position in Evertrust Common was eliminated as that Company was taken over in a cash merger transaction.

Number of Shares	New Positions Acquired
47,250 shares	JAKKS, Pacific Inc. Common Stock ("JAKKS Common")
1,215,800 shares	Liu Chong Hing Bank, Ltd. Common Stock ("Liu Chong Common")
2,801 shares	Pargesa Holding AG Common Stock ("Pargesa Common")
500,000 shares	Suncor Energy, Inc. Common Stock ("Suncor Common")
	Increases in Existing Positions
71,200 shares	Brascan Corporation Class A Common Stock ("Brascan Common")
999,900 shares	Guoco Group Ltd. Common Stock ("Guoco Common")
2,000,000 shares	Hutchison Whampoa, Ltd. Common Stock ("Hutchison Whampoa Common")
1,034,000 shares	Toyota Industries Corp. Common Stock ("Toyota Industries Common")
	Position Eliminated
60,000 shares	Evertrust Financial Group Common Stock ("Evertrust Common")

PASSIVE FOREIGN INVESTMENT COMPANIES

As can be seen from the views expressed in this letter, the Fund has a strong predilection in favor of investing in the common stocks of extremely well-capitalized companies when those issues are available at prices representing what we believe to be substantial discounts from readily ascertainable NAVs. Unfortunately, though, price appreciation in any year in several of these investments can result in unpleasant consequences for TAVF shareholders. This tends to occur insofar as the companies in which Third Avenue has invested are foreign issuers which derive 50% or more of their asset value from holding a combination of cash and a portfolio of non-control securities (or from receiving passive rents on real estate). The fact that a number of these companies own large portfolios of marketable securities makes it easy to ascertain that their common stocks are selling at meaningful discounts from readily ascertainable NAV. It may also cause such companies, for U.S. Income Tax purposes, to be characterized as Passive Foreign Investment Companies ("PFICs"). Toyota Industries Common is one of several securities in the TAVF portfolio which we believe has PFIC status. However, in none of the other instances will the tax impact be as large to the Fund in the current year as it is in the Toyota Industries case. Toyota Industries Common is the Fund's second largest equity position, as measured by market price.

In effect, and as far as Third Avenue stockholders are concerned, the U.S. taxation of PFICs generally works as follows:

> In order to avoid potentially onerous penalty taxes, Third Avenue generally elects to mark its PFIC positions to market for tax purposes. This requires that on an annualized basis, with respect to each lot of PFIC stock, any realized or unrealized appreciation achieved during the year by TAVF be treated as ordinary income, taxable at ordinary rates, while any realized or unrealized losses of the Fund be deemed ordinary losses deductible in that year from ordinary income to the extent of any prior period's income inclusions. The cost basis for the security held is adjusted each year by the amount of the mark-to-market adjustment.

At October 31, 2004, the PFIC adjustment for fiscal 2004 attributable to the Fund's holdings of Toyota Industries Common, aggregated $34.2 million, equal to ordinary income for U.S. income tax purposes of approximately 42¢ per TAVF share. This 42¢ amount is included in the estimated ordinary income distribution of approximately $0.78 per share, discussed in the Shareholder Distribution section of this letter.

Management's objective is to manage TAVF as effectively as we can on an after-tax basis. PFIC tax rules are a negative which detracts from the attractiveness of the PFIC common stocks held by the Fund. In my opinion, though, the PFIC commons owned by TAVF, including Toyota Industries Common, are, net net, highly attractive issues. Shareholders ought to note that the characteristics that make a particular tax provision — whether PFIC or Original Issue Discount ("OID") — especially onerous are as follows:

"...the Fund's best investments revolved around being in bed with superior managements who were able to be opportunistic on a long-term basis, say five years or so, in taking advantage of the resources in the business."

i. the taxpayer is taxed at the highest rate (*i.e.*, at ordinary income tax rates).

ii. the taxpayer has no control over the timing of when the tax has to be paid.

iii. the event which gives rise to the tax does not also give rise to the cash with which to pay the tax.

The PFIC tax law was designed to prevent U.S. residents or citizens from avoiding U.S. income taxes by setting up off-shore investment vehicles to hold portfolios of passive securities or passive real estate. This tax objective seems to have no relevance for Toyota Industries Common, or other issues in the Fund's portfolio which might be deemed to be PFICs. However, the law was poorly drafted. The Investment Company Institute, the fund industry's lobbying group, has pushed for an amendment to the Internal Revenue Code to eliminate the 50% asset value test. TAVF management will do what we can to support these efforts. If eliminated, the PFIC problem faced by the Fund, and its shareholders, would be diminished dramatically. However, don't hold your breath waiting for any tax changes along these lines. We have also held conversations with Toyota Industries' management to discuss methods by which Toyota Industries' holdings of marketable securities and cash could be reduced below 50% of asset values assuming Toyota Industries wanted to do this in order to appeal to American investors. I have no idea as to whether, or not, these talks might go anyplace.

THE "SECRET" OF TAVF'S SUCCESS IN COMMON STOCK INVESTING

Almost 80% of the market value of Third Avenue's common stock portfolio, at October 31, 2004, consisted of the issues of well-capitalized companies which were acquired at prices which represented, at the time of acquisition, meaningful discounts from readily ascertainable NAVs. This, however, does not appear to have been the key to investment success for TAVF.

Rather, the Fund's best investments revolved around being in bed with superior managements who were able to be opportunistic on a long-term basis, say five years or so, in taking advantage of the resources in the business. In all cases, these resources included strong financial positions. Obviously, the businesses benefited also from the ability of management to create, or take advantage of, other resources, including having highly efficient manufacturing abilities (Toyota Industries); having the ability to make attractive acquisitions (Legg Mason, Nabors Industries); having the ability to generate huge amounts of cash (Kmart); having the ability to employ excess capital, *i.e.*, surplus-surplus, profitably (regional and community depository institutions); having the ability to access capital markets, especially credit markets, on a super-attractive basis (Brascan, Catellus, Forest City); having the ability to use a superior financial position to strengthen a competitive position (AVX); having the ability to expand into new, but related, product lines (MBIA, Radian); and having the ability to maintain profit margins during periods of increased competition and severe economic downturn (Japanese non-life insurers).

The underlying characteristic of these superior managements, in my opinion, is that they seem to focus on the same things TAVF focuses on as a buy-and-hold investor, *i.e.,* long-term wealth creation. Unlike most stock market participants, the primary focus of these managements is not on what periodic reported earnings per share, or periodic EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization), might be. In creating wealth, these opportunistic managements realize that there tend to be many ways to create wealth besides enjoying operating earnings. These other methods of creating wealth include enjoying super attractive access to capital markets, both credit markets and equity markets; being able to make opportunistic acquisitions of other companies and other assets; being able to opportunistically launch new businesses; and being able to take advantage of basic mispricings in securities markets in order to, *inter alia*, repurchase outstanding common stock, spin-off glamorous subsidiaries, or liquidate assets in whole or in part.

No management is perfect. The factors that allow the managements TAVF likes to be opportunistic also bring to light certain shortcomings, at least from the view point of shorter-term stock market speculators. During good times, the maintenance of a strong financial position obviously translates into a willingness of management to sacrifice increased Return on Assets ("ROA") and Return on Equity ("ROE") in order to enjoy the safety benefits and the opportunistic benefits inherent in having a strong financial position. Focusing on long-term opportunism rather than periodic earnings per share, as reported, tends to not sit well with most Outside Passive Minority Investors ("OPMIs"). A company with a strong financial position either does not need access to capital markets or else controls the timing as to when they would access capital markets. Given this, the managements tend to be non-promotional, and at times, hardly interested at all in what Wall Street thinks.

On the opportunism issue, I am convinced it is very difficult for most managements to be opportunistic if their financial positions are such that the managements have to be supplicants to creditors — whether those creditors are financial institutions, trade vendors, or landlords.

While investing in the common stocks of well-managed, well-capitalized companies when those securities are selling at discounts from readily ascertainable NAVs has worked quite well for Third Avenue over the long term, the Fund is prone to misjudgments. It seems to me that the vast majority of TAVF's misjudgments have revolved around being in bed with the wrong management from a Fund point of view, rather than any purely financial factors. In recent years, the Fund has owned its share of doggy common stocks, *e.g.*, Carematrix, Head Insurance, ICSL, MONY Group, Phoenix Companies and Safelite Glass. In each of these cases, I think my appraisals of the management in place at the time of the share acquisition, left something to be desired. If Fund management had been better at appraising the managements of portfolio companies, TAVF performance unquestionably would have been better than it actually was.

Appraising managements is, indeed, difficult. Third Avenue wants the managements of the companies in which it invests to be attuned to the interests of OPMIs such as TAVF; to be competent as day-to-day business operators; and to be competent as wealth creators as resource conversion opportunities emerge opportunistically from time to time.

As to being attuned to the interests of OPMIs, it can safely be stated that there does not exist any publicly traded company where the management works exclusively in the best interests of OPMI stockholders. Rather, all financial relationships, including those between managements and OPMIs, combine communities of interest and conflicts of interest. The best OPMIs can hope for is that there is a distinct bent by individual managements toward the communities of interest side. I know that this is the case for the vast majority of companies in the TAVF portfolio. But it is hardly universal. It would be naïve to think that any management would forego management compensation, and management entrenchment, just because some of these management privileges might be perceived as giving rise to a conflict of interest with OPMIs.

It ought to be noted that there tend to be conflicts of interest between short-run, market sensitive OPMIs and long-term, buy-and-hold OPMIs such as Third Avenue. Third Avenue is very much against corporate beefing up of quarterly reported earnings per share when, and if, the striving for periodic earnings per share diminishes opportunities for long-term wealth creation. Striving for quarterly earnings per share often tends to reduce wealth creation opportunities when alternative methods of wealth creation might be available. For example, operating earnings are taxable and unrealized appreciation is not taxable. Not paying taxes increases resources available for wealth creation. It makes sense for corporations interested in wealth creation to emphasize earnings per share when such emphasis will give the company better access to capital markets, especially equity markets, than would otherwise be the case. This, however, has virtually no relevance for TAVF since the common stocks in which the Fund invests are issues of companies with little or no need to access capital markets, especially equity markets.

The appraisal of managements tends to be a mixed bag. The example I like to cite is Toyota Industries.

Positives for Toyota Industries Management

- Toyota Industries is one of the very best, most efficient, manufacturers of old economy "metal bender" products (and lately high-tech products also) that has ever existed.

- The Toyota name is a great "moat" name, protecting the company from competitive inroads, and probably is as good, or better, a "moat" name than are names such as Coke, Pepsi, Gillette, Ivory Soap or Kodak. The prospects seem pretty good that Toyota Motor will have a greater worldwide market share in the automotive industry than General Motors within a few years.

Negatives for Toyota Industries Management

- Corporate Governance leaves a lot to be desired. The Toyota Industries Board of Directors consists solely of Japanese males, and is likely to stay that way.

- Shareholders of Toyota Industries have legal rights only under the so-called "English System". Were Toyota Industries ever to follow practices which disadvantage OPMIs, Third Avenue, as a practical matter, would be without legal recourse. This would not be the case were Toyota Industries incorporated in Delaware.

• Corporate Disclosure could be better, especially if Toyota Industries were to report "Look Through" earnings as a supplement, *i.e.*, tell investors what earnings would be, if included in company profits were Toyota Industries' share of the undistributed earnings on the common stocks of portfolio companies (mostly Toyota Motor Common). On a GAAP basis, Toyota Industries Common is selling around 20X earnings. On a "Look Through" basis, Toyota Industries Common is selling around 6X earnings. "Look Through" earnings, here, give much better clues as to the amount of wealth the company created during the accounting year than do GAAP earnings. GAAP, on the other hand, give much better clues as to what Toyota Industries' cash experience was during the accounting year. Both GAAP and "Look Through" are helpful for the TAVF analysis of the Company.

The bottom line is that I am pleased with Toyota Industries' management. But I could be wrong.

SHAREHOLDER DISTRIBUTION

On December 28, 2004, a distribution will be made to shareholders of record as of December 27, 2004. As of the date this letter went to print, it was estimated that the total distribution would be approximately $0.78 per share, all of which should represent ordinary income. Of this amount, it is estimated that approximately 29% would be treated as qualified dividend income for purposes of the 15% maximum tax rate on individuals. This information is an estimate and should not be used in completing your income tax returns. Information necessary to complete your income tax returns for the calendar year ending December 31, 2004 will be issued by the Fund in the early part of 2005. Stockholders, as always, have the option of receiving distributions in either cash or newly-issued shares of TAVF Common.

I will write you again when the report for the period to end January 31, 2005 is published. Best wishes for a Happy and Prosperous New Year.

Sincerely yours,

Martin J. Whitman

Martin J. Whitman
Chairman of the Board

Third Avenue Small-Cap Value Fund

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

Dear Fellow Shareholders:

At October 31, 2004, the end of the Fund's fiscal year, the audited net asset value attributable to the 45,620,087 common shares outstanding of the Third Avenue Small-Cap Value Fund ("Small-Cap Value" or the "Fund") was $20.98 per share, compared with the Fund's audited net asset value of $17.91 per share at October 31, 2003, adjusted for a subsequent distribution, and an unaudited net asset value at July 31, 2004 of $19.94 per share. At December 20, 2004, the unaudited net asset value was $22.31 per share.

QUARTERLY ACTIVITY*

During the quarter, Small-Cap Value established 5 new positions, added to 24 of its existing positions and eliminated 2 positions. At October 31, 2004, Small-Cap Value held positions in 73 common stocks, the top 10 positions of which accounted for approximately 24% of the Fund's net assets.

Number of Shares	New Positions Acquired
133,783 shares	American Capital Access Holdings Senior Convertible Preferred Stock ("ACA Preferred")
478,382 shares	Ascential Software Corporation Common Stock ("Ascential Common")
456,964 shares	Hollywood Entertainment, Inc. Common Stock ("Hollywood Common")
319,700 shares	Sybase, Inc. Common Stock ("Sybase Common")
487,438 shares	Synopsys, Inc. Common Stock ("Synopsys Common")
	Increases in Existing Positions
85,000 shares	Advanced Fibre Communications, Inc. Common Stock ("AFCI Common")
53,200 shares	AMN Healthcare Services, Inc. Common Stock ("AMN Common")

* 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 October 31, 2004: Brascan Corp. (Class A), 3.48%; Kmart Holding Corp., 2.74%; TimberWest Forest Corp., 2.72%; LNR Property Corp., 2.54%; Forest City Enterprises, Inc. (Class A), 2.15%; The St. Joe Company, 2.14%; Pogo Producing Co., 2.14%; CommScope, Inc., 2.06%; Whiting Petroleum Co., 1.99%; and Fording Canadian Coal Trust, 1.95%.

Number of Shares	Increases in Existing Positions (continued)
10,000 shares	Arch Capital Group, Inc. Common Stock ("Arch Capital Common")
94,100 shares	Bandag, Inc. Common Stock ("Bandag Common")
36,500 shares	CommScope, Inc. Common Stock ("CommScope Common")
200,200 shares	Credence Systems, Inc. Common Stock ("Credence Common")
39,013 shares	Cross Country Healthcare, Inc. Common Stock ("Cross Country Common")
50,214 shares	Dress Barn, Inc. Common Stock ("Dress Barn Common")
85,830 shares	Electro Scientific Industries, Inc. Common Stock ("ESI Common")
44,140 shares	Herley Industries, Inc. Common Stock ("Herley Common")
5,500 shares	Hutchinson Technology, Inc. Common Stock ("Hutchinson Common")
120,000 shares	JAKKS Pacific, Inc. Common Stock ("JAKKS Common")
153,499 shares	K-Swiss, Inc. Common Stock ("K-Swiss Common")
272,778 shares	NewAlliance Bancshares Inc. Common Stock ("NewAlliance Common")
2,000 shares	PAREXEL International Corp. Common Stock ("PAREXEL Common")
7,200 shares	The Phoenix Companies, Inc. Common Stock ("Phoenix Common")
281,200 shares	Pogo Producing Co. Common Stock, ("Pogo Common")
372,100 shares	Quanta Services, Inc. Common Stock ("Quanta Common")
8,500 shares	Russ Berrie and Co. Common Stock ("Russ Berrie Common")
76,900 shares	St. Mary Land and Exploration Co. Common Stock ("St. Mary Common")
264,100 shares	Superior Industries International, Inc. Common Stock ("Superior Common")
194,200 shares	Sycamore Networks, Inc. Common Stock ("Sycamore Common")
36,400 shares	Tidewater, Inc. Common Stock ("Tidewater Common")
41,199 shares	Whiting Petroleum Co. Common Stock ("Whiting Common")

Number of Shares	Positions Eliminated
191,000 shares	FSI International, Inc. Common Stock ("FSI Common")
633,400 shares	TriQuint Semiconductor, Inc. Common Stock ("TriQuint Common")

DISCUSSION OF QUARTERLY ACTIVITY

Reflecting a somewhat less generous public marketplace, the Fund's new purchase activity during the quarter was rather muted, limited to a few narrow areas. First, and as described more fully below, Small-Cap Value purchased the common stocks of a basket of three software companies experiencing difficult short-term business conditions, and facing longer-term challenges as well. In each case, however, the valuations adequately discounted the business problems. Secondly, the Fund, along with its sister fund, Third Avenue Value Fund, and a large private equity investor, purchased the convertible preferred shares of a private insurance company. Lastly, the Fund initiated a modest position in what appeared to be a busted merger arbitrage opportunity.

Synopsys is the leading vendor of Electronic Design Automation ("EDA") software. EDA software is used to design and verify complex integrated circuits. While technically a software company, Synopsys could, analytically speaking, be thought of more as an acquisition and distribution business, whose key to success is broadening the distribution of acquired technologies. Within most of its served applications, Synopsys' tools can boast the number one, or two, market share positions. A number of converging trends should bode well for above-average growth in demand for such tools, including the: i) increased design complexity of chips; ii) continued miniaturization of electronics; and iii) time to market pressures and the corresponding reduction in design cycle times, particularly for chips found in consumer products with short product lives. Investor/speculators, focused on deteriorating near-term business conditions and a shift by the company to a subscription-based licensing model, ignored these seemingly favorable long-term trends and abandoned the stock. Fortunately for the Fund, the investor myopia that contributed to a 60% decline in the company's share price this year enabled the Fund to purchase the shares of this debt-free, cash rich and cash generative business at roughly 1.8x GAAP book value, and 10x free cash flow.

Founded in 1984, Sybase produces enterprise software, including database software and related solutions for mobile and financial applications. The company's core database business remains difficult. As a distant number four behind Oracle, IBM and Microsoft, Sybase's database products also face challenges from "Open Source" initiatives (www.opensource.org) that, during recent periods, have undoubtedly contributed to the significant decline in the company's licensing revenue, and that have likely eroded the economics of the software industry in general. The company's past sins relate more to marketing blunders than to weak technology, problems which seem to be on the mend. In addition, the company appears to be making nice strides in its new business initiatives, particularly with regard to a burgeoning Asian customer base. With nearly $5 per share in cash and no debt, and trading (based on the Fund's cost basis) at approximately 10x free cash flow, Sybase Common seems to fit Third Avenue Management's ("TAM's") investment criteria.

Ascential Software's present business has emerged following the disposition of its Informix software business to IBM in 2001. In recent years, mirroring a trend of consolidation in the software industry, the company has grown through acquisition, and today is positioned as the leading vendor of data integration software. At the time of acquisition, Ascential's cash balances accounted for roughly 65% of the company's market value, translating to a cost basis well below a reasonable private market value of the company.

Established in 1997, American Capital Access Holdings ("ACA") operates two distinct business lines within the financial insurance business. Its credit enhancement business occupies a unique position in the financial guaranty business, by applying the company's single-A credit rating towards insuring the timely payment of principal and interest due from municipal and other public sector obligors. ACA's structured finance business principally involves the origination of proprietary Collateralized Debt Obligations ("CDOs"), pools of investment grade short-term corporate credits or other investment grade bonds. The former activity largely involves "buying and holding" risk over a number of years, while the latter business requires an ability to "actively manage and trade" risk, if necessary. With more than $300 million of qualified statutory capital, the company possesses a strong financial footing that also supports the Fund's preferred stock investment. The likely growth of the business and its attendant capital needs, combined with the presence of a large private equity investor, suggest that ACA might seek to access the public equity markets within the next 18 - 24 months.

Hollywood Entertainment is the second largest rental retailer of DVDs, videos and video games in the United States behind Blockbuster, operating nearly 2,000 Hollywood video stores and 646 Game Crazy specialty stores. The company's shares were effectively "put into play" — in banker parlance — earlier in the year when the management team and a leading buyout firm announced their intentions to take the company private. The Fund became interested in Hollywood Common subsequent to the announcement that the deal, as originally structured, was terminated, leading to a massive decline in the share price. At the time of purchase, the shares traded at 7x - 8x free cash flow and 7x after-tax trailing earnings, and at a roughly 30% discount to the originally announced deal price, a reflection of the common wisdom that all but preordained the death of the DVD/video rental retail business. While the Fund is prepared to hold the shares for the long-term, it seems likely the investment may be disposed of within the next 6 to 12 months as three other prospective buyers, two strategic and one financial, have recently expressed an interest in buying the whole company.

Sales during the quarter eliminated small, untenable positions, and enabled the Fund to realize losses for tax purposes.

RESULTS AND PERFORMANCE

If you read this section of last year's annual letter and felt that it was "a bit windy," as one of my colleagues put it, then you can skip down to the next paragraph. But if you are interested in what our investment goals are, indulge me a bit, and read on. As always, my energies are geared most heavily toward producing results measured in absolute, after-tax terms. Mindful that "headline" inflation does not always match inflation in the real world (*e.g.*, healthcare, education), my goal also continues to be to outrun inflation — however measured — by a wide margin, while minimizing investment risk. That said, what is happening with respect to other asset classes (*i.e.*, relative performance) ought to be given some weight, particularly on a longer-term basis. With these concepts in mind, I have prepared the table below, comparing the Fund's results with a number of indices and inflation measures that I consider relevant in thinking about the Fund's performance.

The table below compares cumulative returns during the most recent three-year period. For example, $100 invested in each of the Fund and the S&P 500 Index on October 31, 2001 would be worth $151.60 and $112.20 (pre-tax and with dividends reinvested), respectively, at October 31, 2004. For individual investors trying to save for educational or retirement needs, or for institutional clients trying to meet obligations likely to come due many years hence, I continue to believe that a three-to-five year timeframe is a reasonable period over which one might judge a manager's results.

THREE-YEAR TOTAL RETURN COMPARATIVE

Asset / Inflation Measure	October 31, 2001	October 31, 2004
Third Avenue Small-Cap Value[1]	100.00	151.60
S&P 500 Index[1]	100.00	112.20
Russell 2000 Index[1]	100.00	141.65
Consumer Price Index (CPI)[1]	100.00	107.43
CPI — Beer	100.00	108.50
CPI — Housing	100.00	108.03
CPI — Education	100.00	121.13

The Fund's position in Kmart Common appreciated more than 200% during the past twelve months, and contributed approximately 2.5% of the Fund's 17.1% return during the same period. Put another way, that single investment accounted for nearly 15% of the Fund's results this past fiscal year. While a host of other names made significant positive contributions to this year's results as well, I cite the Kmart contribution specifically because I regard it as an anomaly, one that added much more value than we could have imagined at the beginning of the year.

In thinking about performance, I also would point out that the Fund's above average, and relatively high, cash holdings have clearly acted as a drag on performance in recent periods, periods notably characterized by a raging

[1] Dividends reinvested into asset/index. CPI information from www.bls.gov and author's calculations.

bull market in smaller company equities. (Consider that the Russell 2000 Index, a widely used proxy for smaller company equity performance, has risen more than 80% during the past 20 months through November!) Despite the slightly negative real returns derived from cash, Fund management is more determined than ever to stick to its knitting and not veer from its investment philosophy, a philosophy grounded in price consciousness.

Most importantly, perhaps, is that the Small-Cap Value portfolio continues to benefit from what TAM management refers to as "resource conversion," in which portfolio companies are either getting acquired, or are redeploying assets for growth purposes. Resource conversions are not only generally additive to the Fund's value, but insulate the portfolio, to some degree, from the vagaries of the public markets and lower, in a sense, the correlation between the Fund's results and those of the general markets. Some notable examples of value enhancing resource conversion during the past year are cited below.

"Resource conversions are not only generally additive to the Fund's value, but insulate the portfolio, to some degree, from the vagaries of the public markets and lower, in a sense, the correlation between the Fund's results and those of the general markets."

Company	Description
Alico, Inc.	Bid for company, potential for special dividend
Brascan Corp.	Prospective sale of 42% interest in Noranda
CommScope, Inc.	Purchase of Avaya cable assets
Kmart Holding Corp.	Monetization of real estate, proposed acquisition of Sears
LNR Property Corp.	Acquisition by Riley Property/Cerberus
Maxwell Shoe Co.	Acquisition by Jones Apparel
Whiting Petroleum Corp.	Acquisition of oil and gas assets

SHAREHOLDER DISTRIBUTION

On December 28, 2004, a distribution will be made to shareholders of record as of December 27, 2004. As of the date this letter went to print, it was estimated that the total distribution would be approximately $0.17 per share. Of this amount, $0.10 should represent ordinary income and $0.07 should be long-term capital gain. It is estimated that all of the ordinary income would be treated as qualified dividend income for purposes of the 15% maximum tax rate on individuals. This information is an estimate and should not be used in completing your income tax returns. Information necessary to complete your income tax returns for the calendar year ending December 31, 2004 will be issued by the Fund in the early part of 2005. Shareholders, as always, have the option of receiving distributions either in cash or in newly issued shares of Small-Cap Value Common Stock.

I look forward to writing you again in the New Year when we publish our First Quarter report dated January 31, 2005. May you and your families enjoy a healthy and prosperous New Year.

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:

I am pleased to provide you with Third Avenue Real Estate Value Fund's (the "Fund") report for the fiscal year ended October 31, 2004. This report marks the Fund's sixth full year of operation, since its inception on September 17, 1998. Once again, I am pleased with the Fund's absolute performance over the last twelve months and, more importantly, over the past six years. The Fund's one-year return was 29.47%, compared to the 31.34% return of the Dow Jones Wilshire Real Estate Securities Index and the 9.42% return of the S&P 500 Index. The Fund's total return from its inception through October 29, 2004 was 198.28%, outperforming the 154.67% return of the Dow Jones Wilshire Real Estate Securities Index and the 21.32% return of the S&P 500 Index.

At October 31, 2004, the audited net asset value attributable to the 66,482,129 shares outstanding was $25.47 per share. This compares with the Fund's unaudited net asset value of $23.22 per share at July 31, 2004 and an audited net asset value, adjusted for subsequent distributions to shareholders, of $19.64 per share at October 31, 2003. At December 20, 2004, the unaudited net asset value was $26.79 per share.

QUARTERLY ACTIVITY*

During the fourth quarter of fiscal 2004, the Fund's outstanding shares increased to 66.5 million shares, from 54.9 million shares — an increase of 21.1%; net assets increased to $1.7 billion, from $1.3 billion — an increase of 30.8%; and net asset value per share increased to $25.47, from $23.22 — an increase of 9.7%. Net cash and short-term investments at year-end totaled 23.14% of net assets, compared to 19.44% at the end of the last fiscal quarter. The following summarizes the Fund's investment activity during the quarter.

* 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 October 31, 2004: The St. Joe Company, 8.65%; Forest City Enterprises, Inc. (Class A), 8.23%; LNR Property Corp., 7.22%; Catellus Development Corp., 5.76%; Brascan Corp. (Class A), 5.40%; Vornado Realty Trust, 3.77%; ProLogis, 3.35%; PS Business Parks, Inc., 3.17%; Kmart Holding Corp., 2.58%; and Brookfield Properties Corp., 2.53%.

Principal Amount or Number of Shares	New Positions Acquired
$2,777,513	Frank's Nursery & Crafts, Inc. Prime + 1% Debtor-in-Possession Loan due 9/9/05 ("Frank's DIP Loan")
$6,849,697	Frank's Nursery & Crafts, Inc. 10.15% Post-Petition Loan due 5/21/05 ("Frank's Post-Petition Loan")
$187,500	Frank's Nursery & Crafts, Inc. Trade Claims ("Frank's Trade Claims")
$4,000,000	Pathmark Stores, Inc. 8.75% Senior Notes due 2/1/12 ("Pathmark Senior Notes")
79,200 shares	Affordable Residential Communities, Inc. Common Stock ("Affordable Common")
189,700 shares	Associated Estates Realty Corp. Common Stock ("Associated Common")
5,000 shares	Atlantic American Realty Capital Advisors, Inc. Common Stock ("Atlantic Common")
714,100 shares	Fairmont Hotels & Resorts, Inc. Common Stock ("Fairmont Common")
250,000 shares	RAIT Investment Trust, Inc. 8.375% Preferred Stock ("RAIT Preferred")
312,199 shares	Sizeler Property Investors, Inc. Common Stock ("Sizeler Common")
2,000,000 shares	Thomas Properties Group, Inc. Common Stock ("Thomas Common")
3,447,000 shares	Unite Group PLC Common Stock ("Unite Common")
	Increases in Existing Positions
86,000 shares	American Financial Realty Trust Common Stock ("American Financial Common")

Principal Amount or Number of Shares	Increases in Existing Positions (continued)
223,300 shares	Anthracite Capital, Inc. Common Stock ("Anthracite Common")
800,000 shares	British Land Company PLC Common Stock ("British Land Common")
343,400 shares	Capital Lease Funding, Inc. Common Stock ("Capital Lease Common")
213,500 shares	CRIIMI MAE, Inc. Common Stock ("CRIIMI MAE Common")
15,000 shares	CRT Properties, Inc. Common Stock ("CRT Common")
29,200 shares	First Capital Realty, Inc. Common Stock ("First Capital Common")
642,300 shares	Forest City Enterprises, Inc. Class A Common Stock ("Forest City Common")
820,400 shares	Killam Properties, Inc. Common Stock ("Killam Common")
62,400 shares	PS Business Parks, Inc. Common Stock ("PSB Common")
17,988 shares	Tejon Ranch Company Common Stock ("Tejon Common")
191,800 shares	The St. Joe Company Common Stock ("St. Joe Common")
	Decrease in Existing Position
$10,031,992	Frank's Nursery & Crafts, Inc. 10.15% Pre-Petition Loans due 5/21/05 ("Frank's Pre-Petition Loans")
	Positions Eliminated
171,900 shares	Cavalier Homes, Inc. Common Stock ("Cavalier Common")
85,600 shares	Coachmen Industries, Inc. Common Stock ("Coachmen Common")

DISCUSSION OF QUARTERLY ACTIVITY

The Fund had a very active quarter in terms of acquiring new positions. We initiated new investments in the securities of ten companies, including the common stocks of three U.S. REITs, a U.S. real estate operating company, a Canadian hotel company, a British developer of student housing and a private real estate finance company; the preferred stock of a U.S. REIT; senior notes in a retail grocery chain; and a participating interest in a debtor-in-possession (DIP) loan for a retailer in Chapter 11 bankruptcy. The balance of the Fund's investment activities included increasing its holdings in the common stocks of several companies as opportunities arose to buy at discount prices. Most of the Fund's new investment ideas can be attributed to Jason Wolf, Fund Management's new senior real estate analyst, who has been diligently researching domestic and foreign real estate companies. While some of the new investments are minor, relative to the Fund's total assets, it is likely that we will increase these positions as we grow more comfortable with the investments. The real estate team will be traveling to London during the next fiscal quarter to meet with the management teams of several U.K. property companies and to tour their properties. I am optimistic that our initial visit will be fruitful. Significant investment activity during the quarter is summarized below.

The Fund purchased two million shares of Thomas Common in the Company's initial public offering. Thomas Properties is a full service real estate operating company that develops, owns, acquires and manages office, retail and multifamily properties nationwide. As a real estate operating company (not a REIT), Thomas Properties will be able to retain most of its operating cash flow and support its platform for future growth. Thomas Properties' management team has an excellent long-term track record with strong institutional joint-venture relationships. The Company specializes in value-added development and redevelopment projects with an emphasis on high-quality office properties. The Company's initial portfolio primarily consists of two large class "A" urban office complexes in Philadelphia and Los Angeles that were contributed to the company at market value. Additionally, the Company owns several land and development parcels that were contributed at cost (which we estimate is substantially less than market value).

The Fund made its first investment in the common stock of a hotel company. Fairmont Hotels, based in Toronto, Canada, develops, owns and operates hotels and resorts under the Fairmont and Delta brands. The company's hotels are located throughout Canada, the United States, Mexico, Bermuda, Barbados and United Arab Emirates. Fairmont owns 15 hotels (7,343 rooms) and has minority interests in seven hotels (2,089 rooms). Additionally, the Company manages 59 hotels (24 Fairmont Hotels and 35 Delta Hotels) for third parties. The majority of the management contracts have 50-year terms with base management fees plus incentive fees. Managed properties include high profile hotels such as The Plaza in New York and the Fairmont Kea Lani Maui (recently sold by the Company for $789,000 per room). The owned portfolio consists of several one-of-a-kind properties with high barriers to entry (*e.g.*, Fairmont Banff Springs, Chateau Lake Louise and Whistler). The Company currently has five new hotels under development in joint ventures in which the Company has equity stakes of 10% to 15%. Additionally, the Company owns substantial excess land adjacent to existing hotels plus 65,000 acres in Canada. The excess land value is not reflected on the balance sheet. Fairmont is extremely well-financed, with debt-to-total assets of only 27% and very strong interest coverage ratios. The Fund has been acquiring Fairmont Common at a substantial discount to our estimate of private market value.

Frank's Nursery & Crafts, an investment that we initiated in July 2000, has not worked out as well as we had hoped. The Fund initially purchased Frank's senior unsecured notes at about 40 cents on the dollar with the expectation that Frank's would either return to profitable operations (giving us a high-yielding performing loan) or reorganize in Chapter 11, pursuant to which the Fund would receive equity in exchange for debt. At the time, Frank's operated a chain of 257 specialty retail stores (139 owned and 118 leased) devoted to the sale of lawn and garden products. We estimated that the liquidation value of Frank's real estate and inventory was substantially greater than the implied enterprise value. Frank's filed for Chapter 11 bankruptcy protection in February 2001. The company completed its reorganization and emerged from bankruptcy in May 2002 with a clean balance sheet and new management team. Unsecured creditors (including the Fund) received Frank's common stock in exchange for their claims. The Fund participated in a secured term loan and revolving credit facility that provided Frank's with necessary working capital to implement its new business plan. Unfortunately, the company continued to generate operating losses for two years after emerging from bankruptcy and no longer had prospects as a viable going-concern. Frank's filed for Chapter 11 bankruptcy protection for the second time in September 2004. This time, however, the Company will conduct an orderly liquidation in order to satisfy creditor claims. The Fund participated in providing debtor-in-possession (DIP) financing that will enable the Company to conduct the liquidation. The DIP Loan as well as the Pre-Petition and Post-Petition Loans are well secured and we expect to receive full recovery including interest and fees. Frank's Common will likely receive no recovery from the liquidation proceeds.

In hindsight, it appears that the first time Frank's filed for bankruptcy protection, its creditors would have fared much better if the Company had liquidated as opposed to reorganized. Competitive pressures from Home Depot and other retailers, along with what turned out to be a poorly conceived business plan, ultimately led to Frank's demise. As harsh as it sounds, back in February 2001, it appears that Frank's was worth more dead than alive. Our analysis of real estate values (the backstop for our investment) was valid then, as it appears to be currently. However, two years of operating losses wiped out whatever equity that may have been available to satisfy the Fund's initial investment. Frank's is an example of a business with excellent resources (real estate) that could have and should have been converted to higher and better uses. Our mistake was buying into a new business plan that, as it turns out, was not much different than the old one. Not unlike Frank's first trip through bankruptcy court, the company recently proposed a reorganization that focused on a smaller store base, a new merchandise plan and cost-cutting measures. The analysis was simple this time: Fool me once, shame on you; fool me twice, shame on me. Or, put another way: Those that don't learn from history are doomed to repeat it. Overall, the Fund should actually earn a positive return on its Frank's investments. As of the end the fiscal year, the unrealized return is approximately 8%.

> **"Resource conversion activities include mergers and acquisitions, changes of control, management buyouts, major financings or refinancings, spin-offs, major share repurchases, liquidations, tender offers, reorganizations in or out of bankruptcy, special dividends and sale of assets in bulk."**

RESOURCE CONVERSION UPDATE

LNR Common will likely be eliminated from the portfolio by early 2005. LNR has agreed to be acquired for $63.10

per share in cash, subject to shareholder approval. The Fund began acquiring LNR Common in 1998. Over the last six years, the Fund continued adding to its holdings in order to maintain LNR Common as one the largest holdings in the portfolio. Until recently, LNR Common consistently traded at a substantial discount to our estimate of net asset value. The stock was not widely covered by Wall Street's sell-side analysts and since LNR's business consists of three distinct (but synergistic) business units — direct property investments, high-yield commercial mortgage loans and commercial mortgage-backed securities — the valuation was more complex than most real estate companies. While we were very comfortable with LNR's management team and their ability to continue creating value for shareholders and would have been willing to hold LNR Common indefinitely, we believe that the acquisition price is reasonable at 1.8 times book value and 1.2 times our estimate of net asset value. The Fund's average cost per share of LNR Common is approximately $40.00.

Third Avenue's investment philosophy is more focused on the "buy" than it is on the "sell". We apply our investment criteria when analyzing securities and attempt to buy securities of well-financed companies at a discount to private market value. Our analysis of private market value takes into consideration both going-concern factors (*e.g.*, net operating income, cash flow, funds from operations, etc.), as well as the potential conversion of corporate resources to other uses, other ownership, other control and other financing and refinancing ("resource conversions"). Fund management believes that resource conversion activities are a natural part of most issuers' business evolution. Resource conversion activities include mergers and acquisitions, changes of control, management buyouts, major financings or refinancings, spin-offs, major share repurchases, liquidations, tender offers, reorganizations in or out of bankruptcy, special dividends and sale of assets in bulk.

We are buy-and-hold investors and tend to be reluctant sellers of securities. Since we don't attempt to predict the outlook for securities markets, interest rates or the general economy, macro-economic considerations are not part of our analysis. We don't hesitate to sell a security if we believe there has been a permanent impairment of capital. However, if we have properly analyzed a security and determined that the issuer is well financed and conservatively managed, we should experience very few permanent impairments of capital. If the market price of a security holding declines, we tend to be buyers (averaging down) rather than sellers, especially if the decline is due to forecasts of market declines by short-term, outlook-focused, sell-side analysts. A large percentage of our exits from securities take place because of resource conversion events rather than our decision to sell in the public markets. Our reluctance to sell a security that appears to be over-valued (but not grossly over-valued) is due to several considerations, including the character of the portfolio (is it expanding in size or is there pressure to sell to meet redemptions?), tax planning, and primarily, the notion that what appears to be over-valued in the public market may, in fact, be a very reasonable valuation in the private market.

Since its inception in 1998, a significant number of the Fund's holdings have been subject to resource conversion events. Over the last six years, the Fund has eliminated fifty-three securities positions, of which twenty-seven were the result of resource conversions.

In addition to the securities eliminated from the portfolio, the following table illustrates the Fund's current holdings that have been, or are about to be, subject to resource conversion events.

Security	Resource Conversion
Brookfield Homes Common	Spin-off from Brookfield Properties
Brookfield Homes 12% Notes	Special dividend
Carematrix Corp. Common	Bankruptcy reorganization
Crown Pacific Partners 7.76% Notes	Bankruptcy reorganization
Sterling Centercorp 8.5% Debentures	Recapitalization
Sterling Centrecorp Common Stock	Recapitalization
Sterling Cenrecorp Warrants	Recapitalization
Avatar Holdings Common	Sale of division
Catellus Development Common	Conversion to REIT
CRIIMI Mae Common	Recapitalization
Prime Group Common	Acquisition pending
Trammell Crow Common	Major share repurchase
Brascan Common	Sale of significant non-core holdings
Brookfield Properties Common	Spin-off of Brookfield Homes
LNR Common	Acquisition pending
St. Joe Common	Spin-off of Florida East Coast Industries, sale of non-core assets and major share repurchases
Frank's Nursery & Crafts Common, Warrants and various debt holdings	Bankruptcy liquidation
Kmart Common	Bankruptcy reorganization, sale of non-core assets and pending acquisition

Resource conversions are particularly common for real estate securities of the type the Fund tends to select. In general, real estate securities (common stocks) tend to be cheaper than direct real estate investments primarily because they lack elements of control and tax attributes, and due to the inability to finance securities purchases with attractive terms. As a result of this common disparity between the price of securities and the price of real estate, over the long term, resource conversions should be the norm, and the Third Avenue Real Estate Value Fund should be in a position to take advantage of this arbitrage.

SHAREHOLDER DISTRIBUTIONS

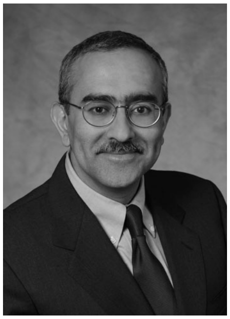
On December 28, 2004, a distribution will be made to shareholders of record as of December 27, 2004. As of the date this letter went to print, it was estimated that the total distribution would be approximately $0.44 per share. Of this amount, $0.18 should represent ordinary income, $0.03 should be short-term capital gain which would be taxed as ordinary income and $0.23 should be long-term capital gain. Of the total amount taxed as ordinary income it is estimated that approximately 63% would be treated as qualified dividend income for purposes of the 15% maximum tax rate on individuals. This information is an estimate and should not be used in completing your income tax returns. Information necessary to complete your income tax returns for the calendar year ending December 31, 2004 will be issued by the Fund in the early part of 2005. Shareholders, as always, have the option of receiving distributions either in cash or in newly issued common shares of the Fund.

I look forward to writing to you again when we publish our quarterly report for the period ending January 31, 2005. Best wishes for a safe, healthy and prosperous New Year.

Sincerely,

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

Third Avenue International Value Fund



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

Dear Fellow Shareholders:

At October 31, 2004, the audited net asset value attributable to the 25,477,108 common shares outstanding of the Third Avenue International Value Fund (the "Fund") was $17.17 per share, compared with the Fund's audited net asset value at October 31, 2003 of $13.19 per share, adjusted for a subsequent distribution. At December 20, 2004, the unaudited net asset value was $18.18 per share.

QUARTERLY ACTIVITY*:

In the most recent quarter of operations, the Fund established new positions in the common stocks of two companies and added to positions in the common stocks of 21 companies.

Number of Shares	New Positions Acquired
3,036,000 shares	Liu Chong Hing Investments ("LCHI Common")
9,898,000 shares	Vitasoy International Holdings Ltd. ("Vitasoy Common")

Number of Shares	Increases in Existing Positions
192,200 shares	Aker Kvaerner ASA. ("Aker Common")
94,400 shares	Asatsu-DK Inc. ("Asatsu Common")
2,775,630 shares	BRIT Insurance Holdings plc ("BRIT Common")
125,000 shares	Canfor Corporation ("Canfor Common")
5,950 shares	Cap Gemini SA ("Cap Common")
30,000 shares	Compagnie Generale de Geophysique SA ("Geophysique Common")
254,000 shares	Del Monte Pacific, Ltd. ("Del Monte Common")
269,700 shares	Dundee Precious Metals Ltd. ("Dundee Common")
122,600 shares	Farstad Shipping ASA ("Farstad Common")
1,615,517 shares	GEAC Computer Corp. Ltd. ("GEAC 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 October 31, 2004: Toll NZ, Ltd., 6.81%; Aker Kvaerner ASA, 3.67%; Zinifex, Ltd., 3.60%; Hutchison Whampoa, Ltd., 3.34%; Telecom Corp. of New Zealand, Ltd., 2.60%; GEAC Computer Corp., Ltd., 2.51%; Oslo Bors Holding ASA, 2.48%; Rubicon, Ltd., 2.31%; Ganger Rolf ASA, 2.23%; and BRIT Insurance Holdings PLC, 2.14%.

Number of Shares	Increases in Existing Positions (continued)
287,100 shares	Guoco Group Ltd. ("Guoco Common")
1,566,000 shares	Hotung Investment Holdings Ltd. ("Hotung Common")
986,800 shares	Hutchison Whampoa, Ltd. ("Hutchison Common")
10,000 shares	Imerys SA ("Imerys Common")
27,000 shares	Noranda Inc. ("Noranda Common")
60,000 shares	Oslo Bors Holding ASA ("Oslo Bors Common")
738 shares	Pargesa Holding AG ("Pargesa Common")
1,804,693 shares	Rubicon Ltd. ("Rubicon Common")
1,575,442 shares	Telecom Corp. of New Zealand, Ltd. ("Telecom Common")
4,745,098 shares	Toll NZ Ltd. ("Toll NZ Common")
6,452,500 shares	Zinifex Ltd. ("Zinifex Common")

REVIEW OF QUARTERLY ACTIVITY

Liu Chong Hing Investment Limited ("LCHI") is a well-capitalized Hong Kong-based company that owns and manages real estate properties in Hong Kong and China, as well as a 46% stake in Liu Chong Hing Bank ("LCH Bank"), a Hong Kong retail bank. Our purchase of shares in LCHI was effected at a discount of at least 60% to our estimate of their net asset value ("NAV"). Net debt, at 28% of total assets of the company, does not appear to represent an onerous burden.

LCHI's real estate holdings include two shopping malls and an office building in Hong Kong, all of which are fully leased, as well as a residential development in Guangzhou, China, that was completed in 2003 and is being sold unit by unit to apartment buyers. There is also an office building in Shanghai currently under construction, in a prime location in that city. With the exception of the property in Shanghai, the remainder of the real estate holdings are now generating cash for the company either via rental receipts or from dispositions.

The stake in LCH Bank represents one third of LCHI's gross assets. LCH Bank is a small, extremely conservative local bank in Hong Kong, with a Tier 1 ratio of 20.6%, and has 45% of its assets invested in low-risk categories, such as cash, interbank loans, CDs, and fixed income securities.

While there is no event evident on the horizon which would close the significant gap between LCHI's price and NAV, given the company's balance sheet quality, we are happy to hold it while value continues to build.

Hong Kong-based Vitasoy International Holdings Ltd. was founded as a producer of soymilk in 1940. Today, Vitasoy's products include soymilk, teas, juices, water and tofu. While its most important market remains Hong Kong, Vitasoy has become a global producer and distributor of its products with increasingly important markets in North America, China, Australia and New Zealand.

Two factors lay behind Vitasoy's poor operating performance during its most recent fiscal year:

The SARS epidemic in Hong Kong coincided with the first half of Vitasoy's most recent fiscal year. Within Hong Kong, Vitasoy's products are primarily purchased in convenience stores, coffee shops and schools, sales at each of which suffered greatly as fear of crowds and public spaces was pervasive and prolonged school closures were implemented. Operating profitability continued to be hampered into the second half of the fiscal year as a large, post-SARS marketing program was implemented.

Separately, Vitasoy's North American operations continue to produce operating losses. The company has operated with a moderate degree of success in the US for over 20 years, however with the capital expenditures undertaken five years ago to expand the product range and production capacity, Vitasoy has been unable to profitably produce and ship the fresh (*i.e.,* refrigerated) product. It appears that distribution continues to present a significant operating challenge for Vitasoy's North American subsidiary. The company continues to work at operating cost reductions and could conceivably partner with someone with US distribution expertise, so as to overcome these challenges.

Notwithstanding these depressants to earnings, the company continues to be an excess generator of cash and is very well capitalized. Our purchases of Vitasoy Common were effected at relatively modest multiples of operating earnings, and a relatively low multiple of free cash flow, despite the fact that both operating earnings and cash flow were unusually depressed during this period for the above noted reasons.

EMERGING MARKET INVESTING IN THE FUND

Any reader would be justified in wondering why such a heading would find a place in the Fund's year-end letter, given that at the end of October, only 1.8% of the assets are in countries that would be classified as developing. Given that much ink has already been spilt on the attractions that emerging markets ostensibly hold for investors (exceptionally attractive demographics, rising purchasing power, increasing literacy, and so on), we can only say that such securities are notable by their absence in the Fund's portfolio and, in the following, attempt to outline some of the factors that influence our approach to the inclusion (or exclusion) of emerging market securities in the Fund's portfolio. At the same time, it is necessary to be mindful that such markets are a rather heterogeneous lot, and with the securities, being of broad variety, any sweeping generalization is apt to be erroneous.

The Fund's investment activities are purely bottom-up in nature and focus on the selection of securities that are, in our judgment, safe and cheap. Nowhere is the application of these requirements of more acute importance than in emerging markets. We highlight a sample of some investment risks below. Some of these are analogous to those faced in developed markets, but are often heightened in emerging markets by local institutional peculiarities while other risks are relatively more likely to be encountered only in emerging markets. A review of these should also explain why emerging market securities are unlikely to become more than a rather small part of the Fund's portfolio, at any time.

"The Fund's investment activities are purely bottom-up in nature and focus on the selection of securities that are, in our judgment, safe and cheap. Nowhere is the application of these requirements of more acute importance than in emerging markets."

SAFETY:

- **Political risk:** This can take a variety of forms, ranging from the relatively benign to the more draconian, such as a wholesale repudiation of laws. An example of the latter can be found in the recent Argentinian experience where the government passed laws that annulled contracts (*e.g.,* leases) which required payment in U.S. Dollars, to allow service of obligations following a sizable peso devaluation. This devaluation of the peso required it to eliminate a Congressional Law to maintain the peso at parity with the U.S. Dollar. Predictably, this resulted in considerable damage to the banking system, utilities and other entities where U.S. Dollar borrowing was prevalent and necessary.

  A slightly more benign form of political risk is operative when a private sector enterprise acts as an instrument of government policy in a transaction of "national interest", *e.g.,* a listed private company is required (by the government) to purchase a failing company to preserve jobs. The pursuit of activities other than those of the company's choosing (and outside the stated charter), cannot automatically be considered to be in the best interests of the outside shareholders.

• **Banking system weaknesses:** This has often been a source of problems in the past (*e.g.,* Mexico in 1994; Thailand and Korea in 1998; Argentina in 2002) and very likely will be in the future. Weak (and often politically motivated) regulation, poor practices such as "required" lending to certain sectors combined with poor oversight have resulted in a number of weakly-capitalized banking sectors, which tend to experience considerable difficulty in downturns. Current examples of potentially vulnerable institutions might include a number of the Chinese and Indian banks, which have long histories of operating as public sector enterprises. It is precisely because of the potential fragility of these banking systems, that we require our investee companies in emerging markets not be dependent upon either the banks or the capital markets for recurrent financing.

• **Related party transactions:** There is often minimal disclosure and considerable opacity associated with related party transactions, sale of assets or off-balance sheet loan guarantees to related companies, and the like. While there has been some improvement on the disclosure front, there has been little done to stop such activities.

• **Currency factors:** Hedging emerging market currencies (which are often more volatile) is usually either expensive or simply unfeasible. Accordingly, most investing in developing countries is done without any currency hedging, unlike developed markets where currencies can be hedged relatively economically. However, a particular currency-related risk (*albeit* one with a low probability) that periodically occurs in developing countries is the imposition of currency controls. While most of these have been relatively short-lived, it can be somewhat problematic, in that the imposition of currency controls effectively determines the time of the sale of the security and repatriation of the proceeds, possibly forcing the investor to assume the security (and currency) risk for a period not of his choosing.

Financial commitments to emerging markets can be in the form of direct investments, where the investor manager enjoys elements of control; or securities investments, where the investor is purely passive. As a mutual fund, the Fund is strictly a passive securities investor. In emerging markets, securities investments are much more subject to the safety risks described above than are direct investments.

• **Cheapness:** Emerging market investing, as commonly practiced, has been akin to growth stock investing with a considerable weight being placed upon the short-term outlook and a fixation on the outlook for earnings growth. These considerations dominate others such as earnings quality, balance sheet considerations, and the like. Periods of buoyant operating performance or expectation of buoyancy, as in recent history, have been associated with elevated pricing of securities of emerging market companies. At Third Avenue Management, where we weigh balance sheets more heavily than income statements in arriving at our investment decisions, given recent pricing, combined with the stringency of our requirement for the safety of our capital, there has been little to induce us to add to existing holding or new names in emerging markets.

Our current emerging market investments in the Fund are: Banco Latino Americano de Exportaciones ("Bladex") and Cresud SACIFYA ("Cresud"). Both of these have historically provided US-quality disclosure (both are US-listed), neither has an unusual degree of financial leverage (after the rights issue Bladex is tremendously overcapitalized while Cresud is substantially debt free); neither has any unusual currency-related risks (both operate largely in U.S. Dollars), or faced peculiar regulatory risks in the conduct of their businesses. In both cases, at the time of purchase they were trading at significant discounts to their respective estimated NAVs, based upon the balance sheet at that time, and did not incorporate any estimates of future growth or positive developments which could have taken place (and did) since our purchase.

GEOGRAPHICAL DISTRIBUTION OF INVESTMENTS

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

	%
New Zealand	11.72
Norway	11.56
Canada	10.68
Hong Kong	5.90
Singapore	4.62
Japan	3.98
Australia	3.59
France	3.40
United Kingdom	2.55
Spain	1.11
Panama	1.05
Switzerland	0.86
Argentina	0.73
Sweden	0.44
Equities–total	62.19
Foreign Government Debt	7.72
Cash & Other	30.09
Total	100.00%

Portfolio holdings are subject to change without notice.

Note that the table above should be viewed as an *ex-post* listing of where our investments reside, period. As we noted in our July 2004 letter, there is no attempt to allocate the portfolio assets among countries (or sectors) based upon an overarching macroeconomic view or index-related considerations.

On December 28, 2004, a distribution will be made to shareholders of record as of December 27, 2004. As of the date this letter went to print, it was estimated that the total distribution would be approximately $0.23 per share, all of which should represent ordinary income. Of this amount, it is estimated that approximately 38% would be treated as qualified dividend income for purposes of the 15% maximum tax rate on individuals. This information is an estimate and should not be used in completing your income tax returns. Information necessary to complete your income tax returns for the calendar year ending December 31, 2004 will be issued by the Fund in the early part of 2005. Stockholders, as always, have the option of receiving distributions in either cash or newly issued shares of the Fund's Common Stock.

I will write you again when the report for the period to end January 31, 2005 is issued. Best wishes for a happy and prosperous New Year.

Sincerely,

Amit Wadhwaney
Portfolio Manager,
Third Avenue International Value Fund

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