



THIRD AVENUE VALUE FUND  
THIRD AVENUE SMALL-CAP VALUE FUND  
THIRD AVENUE REAL ESTATE VALUE FUND

**FIRST QUARTER REPORT**  
(Unaudited)

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January 31, 2000



## Third Avenue Value Fund

Dear Fellow Shareholders:

At January 31, 2000, the unaudited net asset value attributable to the 38,460,778 common shares outstanding of the Third Avenue Value Fund (“TAVF”, “Third Avenue” or the “Fund”) was \$37.23 per share. This compares with a net asset value of \$34.40 per share at October 31, 1999, and a net asset value at January 31, 1999 of \$32.76 per share, both as adjusted for a subsequent distribution to stockholders. At February 23, 2000, the net asset value was \$38.99 per share.

### QUARTERLY ACTIVITY

Share redemptions dried up during the most recent quarter. The number of shares of common stock outstanding at January 31, 2000 was virtually identical to the number of shares of common stock outstanding at October 31, 1999.

During the quarter, one new subordinated debenture position was acquired and four new common stock positions were created either *de novo* or reinstated. Two common stock positions – Tompkins Trustco, Inc. Common Stock and ACE Ltd. Common Stock – were created out of mergers which resulted in exchanges for common stocks formerly held in the TAVF portfolio. Six common stock positions were increased during the quarter.

The Fund eliminated five positions during the quarter of which three were the results of the companies being acquired. One position, Lam Research Common, was eliminated because the issue appeared to be grossly overpriced; and one issue, Covance Common Stock, was sold because of a decision to concentrate our investments in the common stocks of Clinical Research Organizations (“CROs”) in three other issues. Five existing positions were decreased essentially because of a desire to lighten up on holdings of semi-conductor equipment common stocks, which, at the end of the quarter, accounted for 34% of the Fund’s net assets:

#### Principal Amount

or

#### Number of Shares

\$24,839,000

87,035 shares

33,000 shares

347,000 shares

41,100 shares

379,000 shares

92,300 shares

#### New Positions Acquired

CareMatrix Corp. 6.25% due 8/15/2004 (“CareMatrix Subordinates”)

ACE Ltd. Ordinary Shares (“ACE Common”)

D.R. Horton, Inc. Common Stock (“Horton Common”)

Kendle International Inc. Common Stock (“Kendle Common”)

Tompkins Trustco, Inc. Common Stock (“Tompkins Common”)

The Nissan Fire & Marine Insurance Co., Ltd. Common Stock  
 (“Nissan Common”)

Woronoco Bancorp Common Stock (“Woronoco Common”)

**Number of Shares**

183,800 shares  
464,000 shares

134,000 shares  
420,900 shares  
327,000 shares  
17,700 shares

48,000 shares  
300,000 shares  
100,300 shares

231,700 shares  
169,200 shares

133,900 shares

100,000 shares

376,400 shares

60,000 shares

108,750 shares

**Increases in Existing Positions**

Alamo Group, Inc. Common Stock ("Alamo Common")  
The Chiyoda Fire and Marine Insurance Co., Ltd. Common Stock ("Chiyoda Common")  
Financial Security Assurance Holdings, Ltd. Common Stock ("FSA Common")  
PAREXEL International Corp. Common Stock ("PAREXEL Common")  
Pharmaceutical Product Development, Inc. Common Stock ("PPD Common")  
Tecumseh Products Co. Class B Common Stock ("Tecumseh Common")

**Reductions in Existing Positions**

AVX Corp. ("AVX Common")  
Applied Materials, Inc. Common Stock ("Applied Materials Common")  
Electro Scientific Industries, Inc. Common Stock ("Electro Scientific Common")  
GaSonics International Corp. Common Stock ("GaSonics Common")  
KLA-Tencor Corp. Common Stock ("KLA Common")

**Positions Eliminated**

Capital Re Corp. Common Stock ("Cap Re Common")  
Covance Inc. Common Stock ("Covance Common")  
Lam Research Corp. Common Stock ("Lam Common")  
Letchworth Independent Bancshares Corp. ("Letchworth Common")  
Tyco International Ltd. Common Stock ("Tyco Common")

The CareMatrix Subordinates were acquired at a yield to maturity of almost 36%. CareMatrix, which manages assisted living facilities for the elderly in the U.S., probably will continue to service its debt. If not, the CareMatrix Subordinates ought to work out okay, compared with our cost, in the event of a reorganization, either out-of-court or in Chapter 11. TAVF owns over 20% of the outstanding issue of CareMatrix Subordinates and, thus, is likely to be influential in the event the company seeks to reorganize and tries to preserve any values for CareMatrix Common Stock.

The common stocks of leading homebuilders, such as D.R. Horton, seem to be as depressed as the title insurers in whose common stocks the Fund has relatively large investments, First American Financial and Stewart Information Services. All three of these common stocks appear to be issues of fine companies and all three are likely to be influenced by the same general economic trends, as measured essentially by housing starts. The outlooks for 2000, and



probably 2001, seem to be not as good as what was achieved in 1999, which to me seems hardly a reason why these common stocks should be so depressed so that they are selling at less than nine times average annual earnings achieved over the last housing cycle and less than three to four times earnings achieved at the most recent cyclical top.

Small, extremely well capitalized depository institutions, whose common stocks sell at substantial discounts from book value, have been an attractive arena for TAVF since the Fund's inception in 1990. Two such issues are Tompkins Common and Woronoco Common.

Because of the Fund's continued involvement with Innovative Clinical Solutions, Ltd. ("ICSL"), as the largest holder of ICSL Subordinates, it has become increasingly apparent that leading CRO's have excellent growth potentials and that various common stocks are currently available at attractive prices. Thus, during the quarter new, or expanded, investments were made into Kendle Common, PAREXEL Common and PPD Common.

TAVF sold its entire position in Nissan Common in the last fiscal year in order to realize losses for U.S. income tax purposes. The Fund is now reestablishing its position because of a view that Nissan, of all the Japanese non-life insurers held by TAVF, is the most likely take-over candidate.

It is part of the Fund's "style" to acquire the common stocks of well financed, prospering companies when Third Avenue can buy in at prices representing substantial discounts from what insiders paid for the same common stocks in the recent past. In December 1999, insiders acquired slightly over 2,000,000 newly issued shares of FSA Common at \$54.20 per share; in January 2000, TAVF acquired 114,000 shares of FSA Common at an average price of \$44.76 per share. In September 1998, Toyota Motor increased its interest in Chiyoda Common from 37% to 47% of the outstanding issue by buying Chiyoda Common at 500 yen; in January 2000, TAVF acquired 464,000 shares of Chiyoda Common at an all-in price of less than 285 yen.

Both Alamo Group and Tecumseh Products are industrial companies which seem to be prospering. The prices of these common stocks, however, seem unusually depressed whether measured by price-earnings ratios, price to asset value ratios or historic market prices for the common stocks.

Tyco Common Stock was received by the Fund in connection with the Tyco acquisition of AFC Cable. The Fund sold Tyco Common, a high PE ratio common stock.

#### **GARP VS. GADCP**

GARP stands for "Growth at a Reasonable Price." GARP is a usual standard for growth investing in the financial community by Outside, Passive, Minority Investors ("OPMIs"), such as mutual funds or individual investors. GADCP stands for "Growth at Dirt Cheap Prices" which is what TAVF tries to accomplish in making most of its investments.

GARP analysis tends to be quite different from GADCP analysis.

GARP analysis focuses strictly on forecasting future flows, - whether such flows are revenues, earnings or cash. An attractive common stock purchase is deemed to exist where future forecasted growth rates are greater than current ratios of price to flows. Thus, a common stock usually is deemed attractive under a GARP analysis if the common stock is



selling at 20 times earnings and the forecasted future growth rate for earnings is something more than 20% compounded, say 25% compounded. However, the same common stock under a GARP analysis would not be attractively priced at 20 times earnings if the future growth rate were estimated to be something less than 20% per annum compounded.

In GARP analysis, heavy weight is placed on the past earnings record. Indeed, in much of GARP analysis it is assumed, in linear fashion, that future growth rates will approximate the growth rates achieved over the past one to five years. Rarely, if ever, is any weight at all given to balance sheet considerations in making forecasts, whether those balance sheet considerations involve the quality of resources in a business or the quantity of resources existing in a firm.

GARP analysis tends to revolve around a very short-run focus. If the immediate revenue, earnings, or cash flow outlooks are poor, common stock investment is to be foregone regardless of long-term prospects. A corollary of this is that the typical GARP securities buyer is short-run oriented and tries to buy at, or near, bottoms for securities prices.

Industry identification is very important in GARP; the securities buyer wants to get into industries that are generally recognized as growth industries in the financial community, say dot.com or telecommunications. Quite often, there is no independent analysis of growth potential, but rather only an acceptance of the generally recognized consensus. The underlying problem with going along with the generally recognized consensus is that the investor tends to buy what is popular when it is most popular. In other words, the investor has to pay up. Historically, buying what is popular when it is most popular has been a prescription for disaster for investors, whether it was acquiring RCA Common in 1929, real estate tax shelters in 1985, or junk bonds in 1988.

In GADCP in general, and in the TAVF portfolio in particular, there is no emphasis on estimating future flows. Rather it is recognized that growth in common stock prices can come, and frequently does come, from sources other than corporate operations. Growth can come from judicious acquisitions (Capital Southwest Common); creating unrealized, and unrecorded, appreciation in asset values (Forest City Enterprise Common); creating "hidden assets" in the form of increases in adjusted book value (Legg Mason Common or FSA Common); having companies taken over by others at premium prices (AFC Cable Common or Integrated Systems Common); and possibly participating in corporate restructurings (ICSL Subordinates).

In forecasting future flows of revenues, earnings, or cash flows, no exclusivity in making these forecasts is given to the past earnings record under a GADCP analysis. It is recognized under GADCP that the Quality of Resources in a business and the Quantity of Resources in a business tend to be equally important, and for some companies are more important than the past record in making reasonably accurate forecasts of future flows. This is simply giving recognition to Returns on Equity ("ROE") and Returns on Assets ("ROA") as part of the forecasting process with E-Equity and A-Assets being balance sheet items. In GADCP, though, there is strong recognition given to the fact that most forecasts, no matter what techniques are used to make them, are going to prove to have been inaccurate. It is just too difficult to properly put into forecasts factors such as competitive forces, technological innovations, inexperienced managements, business cycles, access to capital markets and "acts of God." Knowing of the inherent unreliability of its forecasts, TAVF tries to restrict its common stock investments to issues which enjoy very high quality resources where TAVF can acquire its interests at prices that represent a discount from the estimated quantity of resources that exist in a business.



GADCP is inherently long-term conscious. Indeed, securities markets tend to be efficient enough that a GADCP investor such as TAVF, is unlikely to find issues at attractive prices unless the near-term outlook is poor to clouded. For example, TAVF would be unlikely to find the pricing attractive currently for home builders and CRO's if these were industries where it was clear that operating results for 2000 and 2001 were bound to be better than what was achieved in 1998 and 1999.

Industry outlooks are as important for GADCP as they are for GARP. However, under GADCP, industry outlooks are based on independent analysis rather than conformity with a general consensus. The Fund concluded a few years back that semi-conductor equipment companies would have to participate fully in the growth of the internet and telecommunication industries simply because the internet and telecommunications could not come close to realizing their potentials unless there also occurred a dramatic increase in demand for increasingly sophisticated semi-conductor chips. At that time, there was no recognition of this thesis within any Wall Street general consensus. Third Avenue, therefore, could acquire the common stocks of well financed semi-conductor equipment companies at prices that were probably lower than a first stage venture capitalist would pay were these corporations being financed as start-ups. Under a TAVF analysis, it is assumed that Japanese non-life insurance companies ought to have a high growth potential because these companies seem to be the only capital rich financial institutions in a woefully capital short economy. There is, of course, no general recognition that this thesis might have validity. Common stocks of Japanese non-life insurance companies tend to sell at no more than 50% of net asset value plus deferred income taxes on the unrealized appreciation of portfolio securities. As far as Third Avenue is concerned, credit enhancement seems to be a genuine growth industry in that financial insurance is spreading into all types of credit instruments (it's just not municipals anymore) in a plethora of industrial countries other than the United States. There seems to be no general recognition that future growth prospects for financial insurers might be at least as good as their past growth records. The common stocks of leading financial insurers are available at discounts from adjusted book value. Further, if bio-tech is going to realize the dramatic growth that seems implicit in the prices at which bio-tech common stocks are currently selling, then the CRO's, too, will have to realize dramatic growth. More so than large pharma-companies, bio-techs will have to farm out drug testing to CROs since most bio-techs lack the in-house capabilities for large scale, international testing. CRO common stocks are selling at around 10 to 12 times earnings.

#### **WALL STREET'S FLIGHT TO GARBAGE REVISITED**

The small piece in the last Chairman's letter created quite a stir. Let me clarify.

The gravamen of the piece was to observe that bulge bracket investment bankers in recent years had become managing underwriters at crazy prices for the Initial Public Offerings ("IPO's") of common stock issues of companies with little or no revenues, no operating profits and little, or no, hope for operating profits for the foreseeable future. Six years ago, bulge bracket underwriters would not touch these issues. At that time, these issues were, to my knowledge, the province of small investment banks such as DH Blair and Oscar Gruss.

The important message of the piece was that TAVF would never invest in these IPO's, either at the initial offering price, or in the aftermarket. For example, the Fund would have no interest in an issue that had an IPO price of 15, and then sold in the aftermarket at 50. Rather Third Avenue might get interested when the issue became an anti-momentum



common stock, and sold at, say 2 to 5 (provided, of course, that the issue continued to have a high quality balance sheet).

There was no intent on my part to denigrate any particular firm -- rather I wanted to emphasize that TAVF would continue to avoid those issues that I deemed to be vastly overpriced even though such avoidance resulted in an under-performance by the Fund in 1998 and 1999 relative to the S&P 500 and the NASDAQ Index. Nothing I have previously said has altered my opinion that Oscar Gruss, Goldman Sachs, Morgan Stanley and Merrill Lynch are fine businesses led by honorable managements with integrity. That does not mean, by any stretch of the imagination, that TAVF has to be interested in their IPO's or their stock market research.

The speculative excesses of recent years have, in my opinion, been of overwhelming importance in contributing to the buoyancy of the U.S. economy. It is hard to see how the entrepreneurial growth that has taken place would have taken place unless start-up, and infant, ventures had access through the IPO market to equity capital at, what for the issuers and insiders, has been super attractive pricing. Thus, it can be argued forcefully that firms such as Oscar Gruss, Goldman Sachs, Morgan Stanley and Merrill Lynch have made important contributions to the general prosperity we now enjoy as do other countries where these investment bankers have functioned, such as Oscar Gruss in Israel. So far, investments in these common stocks also seem to have paid off for many, if not most, OPMI's. I doubt very much though that these investments will continue to pay off for OPMI's. I think the probabilities are that OPMI's are riding for a fall. In any event, my loyalty as a fund manager is to the shareholders of TAVF for whom I will continue to try to buy value rather than hype.

I shall write you again when the Semi-Annual Report for the period to end April 30, 2000 is published.

Sincerely yours,

Martin J. Whitman  
Chairman of the Board



**Third Avenue Trust**  
**Third Avenue Value Fund**  
**Portfolio of Investments**  
**at January 31, 2000**  
**(Unaudited)**

	Principal Amount (\$)	Issues	Value	% of Net Assets
<b>Bank and Other Debt - 0.09%</b>				
Oil Services	1,133,932	Cimarron Petroleum Corp. (c) (d)	\$ 1,153,158	0.08%
Retail	284,760	Lechmere, Inc. Trade Claim (a) (c)	37,873	
	150,959	Montgomery Ward Trade Claim (a) (c)	41,212	
			<u>79,085</u>	0.01%
		<b>Total Bank and Other Debt</b> (Cost \$1,214,472)	<u>1,232,243</u>	
<b>Convertible Bonds - 1.53%</b>				
Assisted Living Facilities	24,839,000	CareMatrix Corp. 6.25%, due 8/15/04	<u>8,631,553</u>	0.60%
Pharmaceutical Services	49,155,000	Innovative Clinical Solutions, Ltd. 6.75%, due 6/15/03	<u>13,271,850</u>	0.93%
		<b>Total Convertible Bonds</b> (Cost \$33,174,285)	<u>21,903,403</u>	
<b>Corporate Bonds - 0.78%</b>				
Bermuda Based Financial Institutions	7,500,000	CGA Special Account Trust (b) (c)	<u>7,500,000</u>	0.52%
Industrial	24,900,000	Hechinger Co. 6.95%, due 10/15/03 *	2,801,250	
	8,500,000	Hechinger Co. 9.45%, due 11/15/12 *	<u>956,250</u>	
		<b>Total Corporate Bonds</b> (Cost \$11,089,035)	<u>3,757,500</u>	0.26%
			<u>11,257,500</u>	
<b>Government Agency Bonds - 0.36%</b>				
	5,218,118	Freddie Mac, Collateralized Mortgage Obligation Series 1675 E, 5.85%, due 9/15/17	<u>5,192,132</u>	0.36%
		<b>Total Government Agency Bonds</b> (Cost \$5,195,289)	<u>5,192,132</u>	



**Third Avenue Trust**  
**Third Avenue Value Fund**  
**Portfolio of Investments (continued)**  
**at January 31, 2000**  
**(Unaudited)**

	Shares	Issues	Value	% of Net Assets
<b>Common Stocks and Warrants - 87.43%</b>				
Annuities & Mutual Fund Management & Sales	163,300	John Nuveen & Co., Inc. Class A	\$ 5,797,150	
	518,600	Liberty Financial Companies, Inc.	10,825,775	
			<u>16,622,925</u>	1.16%
Apparel Manufacturers	150,000	Kleinerts, Inc. (a) (c)	1,800,000	0.13%
Bermuda Based	3,341,703	CGA Group, Ltd. (a) (b) (c)	0	
Financial Institutions	91,999	Cobalt Holdings, LLC (c)	920	
	118,449	ESG Re, Ltd. (a) (c)	784,725	
	210,917	LaSalle Re Holdings, Ltd.	2,715,556	
	1,064,516	St. George Holdings, Ltd. Class A (a) (b) (c)	106,451	
	9,044	St. George Holdings, Ltd. Class B (a) (b) (c)	905	
			<u>3,608,557</u>	0.25%
Business Development Companies	72,445	Capital Southwest Corp.	4,201,810	0.29%
Computerized Trading	223,600	Investment Technology Group, Inc.	7,937,800	0.55%
Computers, Networks & Software	100,000	3Com Corp. (a)	5,075,000	0.35%
Depository Institutions	53,000	Astoria Financial Corp.	1,543,625	
	218,500	Carver Bancorp, Inc. (b)	2,703,938	
	39,500	CNY Financial Corp.	711,000	
	61,543	Commercial Federal Corp.	892,373	
	197,307	Golden State Bancorp., Inc. (a)	2,786,961	
	53,480	Golden State Bancorp., Inc. Warrants, 9/17/00 (a)	207,235	
	197,307	Golden State Bancorp, Inc. Litigation Tracking Warrants (a)	197,307	
	69,566	Peoples Heritage Financial Group, Inc.	1,021,751	
	41,100	Tompkins Trustco, Inc.	1,140,525	
	92,300	Woronoco Bancorp	888,388	
			<u>12,093,103</u>	0.84%



**Third Avenue Trust**  
**Third Avenue Value Fund**  
**Portfolio of Investments (continued)**  
**at January 31, 2000**  
**(Unaudited)**

	Shares	Issues	Value	% of Net Assets
<b>Common Stocks and Warrants (continued)</b>				
Financial Insurance	200,000	Ambac Financial Group, Inc.	\$ 9,787,500	
	608,500	Enhance Financial Services Group, Inc.	8,480,969	
	1,134,000	Financial Security Assurance Holdings, Ltd.	62,582,625	
	394,673	MBIA Inc.	19,758,317	
			<u>100,609,411</u>	7.03%
Food Manufacturers & Purveyors	328,000	J & J Snack Foods Corp. (a)	6,273,000	
	109,100	Weis Markets, Inc.	4,684,481	
			<u>10,957,481</u>	0.77%
Home Building	33,000	D.R. Horton, Inc.	381,563	0.03%
Industrial Equipment	398,900	Alamo Group, Inc.	4,362,969	
	123,900	Cummins Engine Co., Inc.	4,739,175	
	125,400	Tecumseh Products Co. Class A (b)	5,721,375	
	435,000	Tecumseh Products Co. Class B (b)	18,270,000	
			<u>33,093,519</u>	2.31%
Industrial - Japan Insurance Holding Companies	2,200,000	Toyoda Automatic Loom Works, Ltd.	44,280,855	3.09%
	87,035	ACE Ltd.	1,539,432	
	200,678	ACMAT Corp. Class A (a) (b)	2,621,356	
	803,669	Danielson Holding Corp. (a) (b) (c)	4,219,262	
	432,300	Risk Capital Holdings, Inc. (a)	6,322,387	
	5,490	Sen-Tech International Holdings, Inc. (a) (c)	3,294,000	
	50,000	White Mountains Insurance Group Inc.	5,625,000	
			<u>23,621,437</u>	1.65%
Manufactured Housing	89,000	Liberty Homes, Inc. Class A	642,469	
	40,000	Liberty Homes, Inc. Class B	288,750	
			<u>931,219</u>	0.07%
Medical Supplies & Services	145,500	Analogic Corp.	5,238,000	
	342,300	Datascope Corp. (a)	12,365,587	
	554,950	Prime Medical Services, Inc. (a)	4,231,494	
	788,900	Protocol Systems, Inc. (a) (b)	7,445,244	
	90,750	St. Jude Medical, Inc. (a)	2,251,734	
			<u>31,532,059</u>	2.20%



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**Third Avenue Value Fund**  
**Portfolio of Investments (continued)**  
**at January 31, 2000**  
**(Unaudited)**

	Shares	Issues	Value	% of Net Assets
<b>Common Stocks and Warrants (continued)</b>				
Natural Resources & Real Estate	1,160,000	Alexander & Baldwin, Inc.	\$ 23,417,500	
	179,600	Catellus Development Corp. (a)	2,245,000	
	31,000	Consolidated-Tomoka Land Co.	364,250	
	550,000	Forest City Enterprises, Inc. Class A	14,334,375	
	7,500	Forest City Enterprises, Inc. Class B	227,812	
	473,489	HomeFed Corp. (a)	255,684	
	955,000	Imperial Credit Commercial Mortgage Investment Corp.	10,743,750	
	1,180,336	Koger Equity, Inc.	18,590,292	
	14,600	LNR Property Corp.	273,750	
	846	Public Storage, Inc.	19,194	
	238,200	St. Joe Co.	5,642,363	
	3,045,508	Tejon Ranch Co. (b) (c)	69,094,963	
			<u>145,208,933</u>	10.14%
Non-Life Insurance-Japan	7,319,000	Mitsui Marine & Fire Insurance Co., Ltd.	37,510,600	
	6,520,000	The Chiyoda Fire & Marine Insurance Co., Ltd.	18,226,716	
	379,000	The Nissan Fire & Marine Insurance Co., Ltd.	1,257,271	
	3,246,000	The Sumitomo Marine & Fire Insurance Co., Ltd. (a)	18,148,441	
	1,020,800	The Tokio Marine & Fire Insurance Co., Ltd., Sponsored ADR	53,655,800	
	3,000,000	The Yasuda Fire & Marine Insurance Co., Ltd.	16,297,815	
			<u>145,096,643</u>	10.13%
Oil Services	500,000	Nabors Industries, Inc. (a)	14,812,500	1.03%
Paper & Related Products	126,605,679	Repap Enterprises Inc. (a) (b)	8,862,398	0.62%
Pharmaceutical Services	347,000	Kendle International Inc. (a)	4,012,187	
	475,900	PAREXEL International Corp. (a)	6,305,675	
	400,000	Pharmaceutical Product Development, Inc. (a)	5,100,000	
			<u>15,417,862</u>	1.08%



**Third Avenue Trust**  
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**Portfolio of Investments (continued)**  
**at January 31, 2000**  
**(Unaudited)**

	Shares	Issues	Value	% of Net Assets
<b>Common Stocks and Warrants (continued)</b>				
Security Brokers, Dealers & Flotation Companies	223,600 893,332 1,086,250	Jefferies Group, Inc. Legg Mason, Inc. Raymond James Financial, Inc.	\$ 4,933,175 32,941,617 20,638,750	
			<u>58,513,542</u>	4.09%
Semiconductor Equipment Manufacturers and Related	100,000 1,700,000 1,004,500 1,500,000 1,882,500 2,320,900 400,000 200,000 300,000 3,734,500 663,200	Applied Materials, Inc. (a) AVX Corp. C.P. Clare Corp. (a) (b) Electro Scientific Industries, Inc. (a) (b) Electroglas, Inc. (a) (b) FSI International, Inc. (a) (b) GaSonic International Corp. (a) KLA-Tencor Corp. (a) Photronics, Inc. (a) Silicon Valley Group, Inc. (a) (b) Veeco Instruments, Inc. (a)	13,725,000 101,150,000 8,914,937 120,187,500 55,416,094 35,973,950 11,975,000 11,725,000 8,981,250 77,724,281 36,393,100	
			<u>482,166,112</u>	33.67%
Small-Cap Technology	230,000 424,000 154,800 247,200 306,900	Evans & Sutherland Computer Corp. (a) Hypercom Corp. (a) Integrated Systems, Inc. (a) Planar Systems, Inc. (a) Vertex Communications Corp. (a) (b)	2,645,000 6,148,000 4,150,575 2,703,750 6,464,081	
			<u>22,111,406</u>	1.54%
Title Insurance	3,145,000 1,951,400	First American Financial Corp. Stewart Information Services Corp. (b)	37,346,875 25,734,087	
			<u>63,080,962</u>	4.41%
		<b>Total Common Stocks and Warrants</b> (Cost \$795,849,619)	<u>1,252,017,097</u>	



**Third Avenue Trust**  
**Third Avenue Value Fund**  
**Portfolio of Investments (continued)**  
**at January 31, 2000**  
**(Unaudited)**

	Shares	Issues	Value	% of Net Assets
<b>Preferred Stock - 1.54%</b>				
Bermuda Based	601,554	CGA Group, Ltd., Series A (b) (c)	\$ 15,038,851	
Financial Institutions	6,045,667	CGA Group, Ltd., Series C (b) (c)	7,039,176	
			<u>22,078,027</u>	1.54%
Insurance Companies	4,775	Ecclesiastical Insurance, 8.625%	8,443	0.00%
		<b>Total Preferred Stock</b> (Cost \$19,864,204)	<u>22,086,470</u>	
	<b>Investment Amount</b>			
<b>Limited Partnerships - 1.42%</b>				
Bermuda Based	\$2,215,000	ESG Partners, LP (c)	728,358	0.05%
Financial Institutions				
Financial Insurance	\$15,000,000	American Capital Access Holdings, LLC (c)	15,000,000	
	\$950,000	Insurance Partners II Equity Fund, LP (c)	950,000	
			<u>15,950,000</u>	1.11%
Insurance Holding Companies	\$3,667,341	Head Insurance Investors LP (c)	3,667,341	0.26%
		<b>Total Limited Partnerships</b> (Cost \$21,887,756)	<u>20,345,699</u>	
	<b>Notional Principal</b>			
<b>Other Investments - 0.04%</b>				
Foreign Currency Swap Contracts	\$90,000,000	Bear Stearns Currency Swap, Termination Date 4/22/00 (c) (e)	1,202,291	
	\$50,000,000	Bear Stearns Currency Swap, Termination Date 10/27/00 (c) (f)	(673,470)	
			<u>528,821</u>	0.04%
		<b>Total Other Investments</b> (Cost \$0)	<u>528,821</u>	



**Third Avenue Trust**  
**Third Avenue Value Fund**  
**Portfolio of Investments (continued)**  
**at January 31, 2000**  
**(Unaudited)**

	Principal Amount (\$)	Issues	Value	% of Net Assets
<b>Short Term Investments - 6.09%</b>				
Repurchase Agreements	83,558,780	Bear Stearns 5.72%, due date February 1, 2000 (g)	\$ 83,558,780	5.84%
U.S. Treasury Bills	2,500,000	U.S. Treasury Bill 5.00%+, 02/03/00	2,499,316	
	1,200,000	U.S. Treasury Bill 5.88%+, 12/07/00 (h)	1,138,982	
			<u>3,638,298</u>	0.25%
		<b>Total Short Term Investments</b> (Cost \$87,201,349)	<u>87,197,078</u>	
		<b>Total Investment Portfolio - 99.28%</b> (Cost \$975,476,009)	<u>1,421,760,443</u>	
		<b>Other Assets</b>		
		<b>Less Liabilities - 0.72%</b>	<u>10,248,232</u>	
		<b>NET ASSETS - 100.00%</b> (Applicable to 38,460,778 shares outstanding)	<u>\$1,432,008,675</u>	
		<b>NET ASSET VALUE PER SHARE</b>	<u>\$37.23</u>	

Notes:

- (a) Non-income producing securities.
  - (b) Affiliated issuers-as defined under the Investment Company Act of 1940 (ownership of 5% or more of the outstanding voting securities of these issuers).
  - (c) Restricted/fair valued securities.
  - (d) Interest accrued at a current rate of prime + 2%.
  - (e) The Fund is selling 9.5 billion Yen and paying an interest rate of 0.22% in exchange for 90 million U.S. Dollars and an interest rate of 5.18%.
  - (f) The Fund is selling 5.2 billion Yen and paying an interest rate of 0.22% in exchange for 50 million U.S. Dollars and an interest rate of 6.29%.
  - (g) Repurchase agreement collateralized by:
    - U.S. Treasury Strips, par value \$14,000,000, 6.80% matures 11/15/08: market value \$7,761,320.
    - U.S. Treasury Strips, par value \$7,160,000, 6.66% matures 5/15/14: market value \$2,770,061.
    - U.S. Treasury Strips, par value \$50,000,000, 8.50%, matures 2/15/20: market value \$13,406,500.
    - U.S. Treasury Strips, par value \$50,000,000, 8.75%, matures 8/15/20: market value \$13,328,000.
    - U.S. Treasury Strips, par value \$13,337,000, 8.125%, matures 5/15/21: market value \$3,305,042.
    - U.S. Treasury Strips, par value \$14,635,000, 8.125% matures 5/15/21: market value \$3,713,631.
    - U.S. Treasury Strips, par value \$29,450,000, 6.42% matures 2/15/22: market value \$7,104,812.
    - U.S. Treasury Strips, par value \$93,320,000, 6.00% matures 2/15/26: market value \$17,993,029.
    - U.S. Treasury Strips, par value \$86,100,000, 6.50%, matures 11/15/26: market value \$15,847,566.
  - (h) Security segregated for future Fund commitments.
- \* Issuer in default.  
 +Annualized yield at date of purchase.  
 ADR: American Depository Receipt.



## Third Avenue Small-Cap Value Fund

Dear Fellow Shareholders:

At January 31, 2000, the end of the first fiscal quarter, the unaudited net asset value attributable to the 10,231,029 common shares outstanding of Third Avenue Small-Cap Value Fund ("Small-Cap Value" or the "Fund") was \$12.20 per share, compared with the Fund's net asset value of \$11.23 per share at October 31, 1999, and a net asset value at January 31, 1999 of \$11.81 per share, both as adjusted for a subsequent distribution to stockholders. At February 23, 2000, the net asset value was \$12.80 per share.

### QUARTERLY ACTIVITY

During the quarter, Small-Cap Value established new positions in four companies, added to seven of its 34 existing positions, and reduced its holdings in nine companies. At January 31, 2000, Small-Cap Value held positions in 38 companies, the top 10 positions of which accounted for approximately 44% of the Fund's net assets.

#### Number of Shares

24,300  
76,400  
28,000  
93,000

#### New Positions Acquired

Century Aluminum Co. Common Stock ("Century Common")  
Kendle International Inc. Common Stock ("Kendle Common")  
PAREXEL International Corp. Common Stock ("PAREXEL Common")  
Pharmaceutical Product Development, Inc. Common Stock ("PPD Common")

#### Increases in Existing Positions

19,000 Alamo Group, Inc. Common Stock ("Alamo Common")  
70,700 Bel Fuse, Inc. Class B Common Stock ("Bel Fuse B Common")  
5,200 Evans & Sutherland Computer Corp. Common Stock ("E&S Common")  
10,700 Financial Security Assurance Holdings Ltd. Common Stock ("FSA Common")  
5,000 First American Financial Corp. Common Stock ("First American Common")  
15,000 LaSalle Re Holdings, Ltd. Common Stock ("LaSalle Common")  
6,000 MBIA Inc. Common Stock ("MBIA Common")

#### Reductions in Existing Positions

44,100 Alico, Inc. Common Stock ("Alico Common")  
21,000 Avatar Holdings, Inc. Common Stock ("Avatar Common")  
78,600 Centigram Communications Corp. Common Stock ("Centigram Common")  
35,200 C.P. Clare Corp. Common Stock ("Clare Common")  
6,900 Deltic Timber Corp. Common Stock ("Deltic Common")

**Number of Shares****Reductions in Existing Positions (continued)**

400,000	The Nissan Fire & Marine Insurance Co., Ltd. Common Stock ("Nissan Common")
114,600	Sawako Corp., Sponsored ADR ("Sawako ADRs")
24,000	SpeedFam-IPEC, Inc. Common Stock ("SpeedFam Common")
14,700	ValueVision International, Inc. Class A Common Stock ("ValueVision Common")

Though relatively small in size, the new additions to the portfolio hold tremendous promise. Kendle, PAREXEL and PPD Common each represent a way to participate, at attractive prices, in the longer-term growth of the pharmaceutical industry. Increases in existing positions are largely extensions of the buying programs from the prior quarter. Reductions of existing positions related primarily to cash raising exercises in order to meet shareholder redemptions. While disappointing, the redemptions have slowed significantly from the prior quarter. Moreover, the portfolio will generate new cash subsequent to the end of the quarter, owing to recent M&A activity. Cash proceeds from at least two takeovers should help mitigate the need for involuntary sales of existing holdings.

Though the public markets have not recognized the value in some of our holdings, it seems the private markets have, and the trend seems to be accelerating. At the end of last year, Capital Re was acquired by ACE Limited. This year, three existing holdings, Gleason Corporation, LaSalle Re, and Protocol each announced that the companies were in takeover or merger talks. Subsequent to the end of the Fund's fiscal quarter, a fourth holding, SpecTran Corporation, was acquired by Lucent Technologies. A fifth holding, C.P. Clare, has dissident shareholders pressuring the company to improve shareholder value.

Gleason Corporation announced that its management team would lead a cash buyout at a significant premium to the Fund's cost basis. LaSalle Re agreed to merge with Trenwick Group in a stock swap creating a larger, stronger organization. Protocol Systems became the target of an unsolicited bid by Invivo Corporation, and may well be "in play." The acquisition of SpecTran by Lucent Technologies, discussed in more detail below, was completed February 2, 2000.

At the time Small-Cap Value acquired its initial position in SpecTran Corporation common stock ("SpecTran Common") more than two years ago, the markets for optical fiber, cable and related components were clouded by a host of capacity issues within the industry, depressing the stock prices of many of the companies within the industry. What was clear, however, was that the longer-term demand for optical fiber and related components was likely to explode, as the build-out of various telecommunications networks required more fiber optic materials. With its newly constructed single mode and multi mode fiber capacity, SpecTran appeared to be one of the few interesting ways of participating in the growing demand for fiber optics.

Two years later, our theory proved correct. Demand for fiber optics has exploded, and equity multiples of companies with fiber optic anything have careened off the charts. Unfortunately for SpecTran shareholders, Lucent announced a cash tender offer for all of SpecTran's shares during July 1999, all but pre-empting the majority of SpecTran's value for itself. Adding insult to injury, and in stark contrast to the vast majority of tender offers, Lucent's bid, at \$9 per share, came at a 22% *discount* to the prior day's closing price of SpecTran's stock. That it took Lucent so long to



close what should have been a quick deal testifies, at least in part, to the resistance of the deal from a high percentage of SpecTran shareholders. Lucent appears to have gained a terrific asset at rock bottom prices.

The financial projections below were supplied to Lucent and other bidders by SpecTran management during due diligence studies and were made public in filings with the SEC. Even modest multiples on these figures – never mind the ludicrous multiples paid by the public markets today - suggest a much higher value for SpecTran Common than the \$9 per share, or \$64 million, Lucent paid.

**SpecTran Corporation Financial Projections (\$ millions, except per share amounts)**

	1997	1998	1999	2000	2001	2002
Sales	\$62.1	\$70.9	\$95.9	\$110.1	\$125.4	\$148.7
EBIT	\$ 6.0	(\$ 0.4)	\$ 9.3	\$ 11.0	\$ 15.1	\$ 24.9
Cash from Operations	na	na	\$ 6.2	\$ 11.7	\$ 15.6	\$ 20.9
EPS	\$0.67	\$0.09	\$0.52	\$ 0.64	\$ 0.97	\$ 1.82

Source: SpecTran Corp., SEC filing DEFM14C.

Ironically, the day after Lucent completed its acquisition of SpecTran, Corning Inc., the world's largest maker of fiber optic lines, announced its intentions to spend \$750 million to expand its fiber-making capacity. Subsequent to Corning's announcement, Lucent announced its acquisition of Ortel Corporation, a maker of fiber optic components, for \$3 billion.

While it's disappointing that the Fund did not realize the full value in SpecTran Common, it's gratifying that values are now getting recognized in many of our other positions by the private markets. One of the virtues of value investing, as practiced by Third Avenue, is that it does not rely on the public markets for an exit. Regardless of general market conditions, Third Avenue shareholders can benefit as either the private markets or public markets recognize the values in our holdings.

I look forward to writing you again when we publish our Semi-Annual Report dated April 30, 2000.

Sincerely,

Curtis R. Jensen  
Co-manager, Third Avenue Small-Cap Value Fund



**Third Avenue Trust**  
**Third Avenue Small-Cap Value Fund**  
**Portfolio of Investments**  
**at January 31, 2000**  
**(Unaudited)**

	Shares	Issues	Value	% of Net Assets
<b>Common Stocks - 98.99%</b>				
Bermuda Based Financial Institutions	134,000	LaSalle Re Holdings, Ltd.	\$ 1,725,250	1.38%
Construction-Japan	317,300	Sawako Corp., Sponsored ADR	1,715,403	1.37%
Financial Insurance	71,000	Financial Security Assurance Holdings Ltd.	3,918,312	
	124,822	MBIA Inc.	6,248,901	
			<u>10,167,213</u>	8.15%
Industrial Equipment	310,000	Alamo Group, Inc.	3,390,625	
	161,600	Gleason Corp.	3,696,600	
			<u>7,087,225</u>	5.68%
Life Insurance	179,000	FBL Financial Group, Inc. Class A	2,327,000	1.86%
Manufactured Housing	184,300	Skyline Corp.	3,801,187	3.05%
Media	125,000	ValueVision International, Inc. Class A (a)	4,445,313	3.56%
Medical Supplies & Services	278,000	Protocol Systems, Inc. (a)	2,623,625	2.10%
Metal & Metal Products	24,300	Century Aluminum Co.	328,050	0.26%
Natural Resources & Real Estate	187,500	Alexander & Baldwin, Inc.	3,785,156	
	197,300	Alico, Inc. (b)	3,082,813	
	139,000	Avatar Holdings, Inc. (a) (b)	2,363,000	
	126,900	Cabot Industrial Trust	2,474,550	
	227,400	Deltic Timber Corp. (b)	5,116,500	
	206,000	Koger Equity, Inc.	3,244,500	
	200,000	Tejon Ranch Co. (d)	4,537,500	
	1,104,700	The TimberWest Forest Corp. (Canada)	7,343,360	
			<u>31,947,379</u>	25.60%
Non-Life Insurance-Japan	2,025,000	The Nissan Fire & Marine Insurance Co., Ltd.	6,717,607	5.38%
Paper & Related Products	13,000,000	Repap Enterprises Inc. (a)	910,000	0.73%



**Third Avenue Trust**  
**Third Avenue Small-Cap Value Fund**  
**Portfolio of Investments (continued)**  
**at January 31, 2000**  
**(Unaudited)**

	Shares	Issues	Value	% of Net Assets
<b>Common Stocks (continued)</b>				
Pharmaceutical Services	76,400	Kendle International Inc. (a)	\$ 883,375	
	28,000	PAREXEL International Corp. (a)	371,000	
	93,000	Pharmaceutical Product Development, Inc. (a)	1,185,750	
			<u>2,440,125</u>	1.96%
Retail	426,100	HomeBase, Inc. (a) (b)	1,358,194	
	261,700	Value City Department Stores, Inc. (a)	4,007,281	
			<u>5,365,475</u>	4.30%
Semiconductor Equipment Manufacturers and Related	484,800	C.P. Clare Corp. (a) (c)	4,302,600	
	154,500	Electroglas, Inc. (a)	4,548,094	
	417,400	FSI International, Inc. (a)	6,469,700	
	99,000	Silicon Valley Group, Inc. (a)	2,060,438	
	175,000	SpeedFam-IPEC, Inc. (a)	2,635,937	
			<u>20,016,769</u>	16.04%
Technology	295,800	ACT Networks, Inc. (a)	2,218,500	
	25,000	Bel Fuse, Inc. Class A (a)	634,375	
	111,400	Bel Fuse, Inc. Class B (a)	2,339,400	
	248,300	Centigram Communications Corp. (a) (c)	3,817,613	
	203,500	Evans & Sutherland Computer Corp. (a) (b)	2,340,250	
	370,300	Planar Systems, Inc. (a)	4,050,156	
	490,600	SpecTran Corp. (a) (c)	4,400,069	
			<u>19,800,363</u>	15.86%
Title Insurance	179,800	First American Financial Corp.	2,135,125	1.71%
		<b>Total Common Stocks</b> (Cost \$124,315,533)	<u>123,553,109</u>	



**Third Avenue Trust**  
**Third Avenue Small-Cap Value Fund**  
**Portfolio of Investments (continued)**  
**at January 31, 2000**  
**(Unaudited)**

	Notional Principal	Issues	Value	% of Net Assets
<b>Other Investments - 0.00%</b>				
Foreign Option Contracts	\$6,500,000	Japanese Yen February 2000 Put Options (d) (e)	\$ 975	0.00%
		<b>Total Other Investments</b> (Cost \$217,750)	<u>975</u>	
	<b>Principal Amount (\$)</b>			
<b>Short Term Investments - 2.92%</b>				
Repurchase Agreements	163,384	Bear Stearns 5.72%, due date February 1, 2000 (f)	163,384	0.13%
Repurchase Agreements - Collateral on	4,762	Bear Stearns 2.94%, due date February 1, 2000 (g)	4,762	
Securities Loaned	3,474,000	Bear Stearns 6.10%, due date February 1, 2000 (g)	3,474,000	
			<u>3,478,762</u>	2.79%
		<b>Total Short Term Investments</b> (Cost \$3,642,146)	<u>3,642,146</u>	
		<b>Total Investment Portfolio - 101.91%</b> (Cost \$128,175,429)	<u>127,196,230</u>	
		<b>Other Assets and Liabilities - (1.91%)</b>	<u>(2,387,263)</u>	
		<b>NET ASSETS - 100.00%</b> (Applicable to 10,231,029 shares outstanding)	<u>\$ 124,808,967</u>	
		<b>NET ASSET VALUE PER SHARE</b>	<u>\$12.20</u>	

Notes:

- (a) Non-income producing securities.
  - (b) Securities in whole or in part on loan.
  - (c) Affiliated issuers-as defined under the Investment Company Act of 1940 (ownership of 5% or more of the outstanding voting securities of these issuers).
  - (d) Restricted/fair valued securities.
  - (e) 6.5 million U.S. Dollar notional amount may be exercised on February 23, 2000 to sell 854.8 million Japanese Yen at a strike price of 131.50.
  - (f) Repurchase agreement collateralized by:  
U.S. Treasury Strips, par value \$295,000, 11.25%, matures 8/15/08 : market value \$166,675.
  - (g) Repurchase agreement collateralized by:  
U.S. Treasury Strips, par value \$20,000, 8.125%, matures 5/15/21 : market value \$4,956.  
U.S. Treasury Strips, par value \$14,300,000, 8.125%, matures 5/15/21 : market value \$3,543,683.
- ADR: American Depository Receipt.



## Third Avenue Real Estate Value Fund

Dear Fellow Shareholders:

At January 31, 2000, the end of the first fiscal quarter of 2000, the unaudited net asset value attributable to the 1,042,495 shares outstanding of the Third Avenue Real Estate Value Fund (the "Fund") was \$10.85 per share. This compares with a net asset value of \$10.78 per share at October 31, 1999, and a net asset value of \$10.51 per share at January 31, 1999, both as adjusted for subsequent distributions to shareholders of \$.311 per share. At February 23, 2000, the unaudited net assets totaled \$11,565,266, attributable to the 1,060,355 common shares outstanding with a net asset value of \$10.91 per share.

### QUARTERLY ACTIVITY

During the first quarter of fiscal 2000, the Fund established new positions in the common stocks of three companies and in the subordinated notes of one company. The Fund increased its position in the common stocks of 12 companies and reduced its position in the common stock of one company. At January 31, 2000, the Fund held positions in 24 companies, and was approximately 94.2% invested. The Fund's top 10 positions accounted for approximately 59.5% of the Fund's net assets.

#### Principal Amount or

#### Number of shares

\$500,000

20,000 shares

2,800 shares

14,700 shares

#### Number of shares

20,500

37,500

19,400

4,600

21,900

1,000

#### New Positions Acquired

CareMatrix Corp. 6.25% Convertible Subordinated Notes due 8/15/04  
("CareMatrix Notes")

D.R. Horton, Inc. ("Horton Common")

ElderTrust ("ElderTrust Common")

U.S. Home Corp. ("U.S. Home Common")

#### Increases in Existing Positions

Anthracite Capital, Inc. ("Anthracite Common")

AMRESKO Capital Trust Inc. ("AMRESKO Common")

Avatar Holdings, Inc. ("Avatar Common")

Catellus Development Corp. ("Catellus Common")

Commercial Assets, Inc. ("Commercial Common")

Consolidated-Tomoka Land Co. ("Consolidated Common")

**Number of shares****Increases in Existing Positions (continued)**

5,000	Deltic Timber Corp. ("Deltic Common")
13,500	LNR Property Corp. ("LNR Common")
31,600	Prime Group Realty Trust ("Prime Common")
7,000	St. Joe Co. ("St. Joe Common")
32,000	United Investors Realty Trust ("United Common")
15,300	Wellsford Real Properties, Inc. ("Wellsford Common")

**Reductions in Existing Positions**

400	Echelon International Corp., Inc. ("Echelon Common")
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**OVERVIEW OF NEW POSITIONS ESTABLISHED DURING THE QUARTER:****Homebuilding Industry**

For the last 18 months, the stock market has been pricing homebuilding common stocks at levels that reflect an anticipated severe downturn in the industry. Since November 1998, 30-year mortgage rates have increased by about 150 basis points and short-term rates (bank prime rate) have increased by about 100 basis points. However, homebuyers have shrugged off the rate increases, new home sales continue to set records, and homebuilders continue to report record earnings. Despite efforts by the Federal Reserve to slow down the economy by raising interest rates, employment, inflation, and housing affordability continue to be favorable for the homebuilding industry. We anticipate that homebuilding activity will ultimately slow down, especially if interest rates continue rising. Even if interest rates remain stable, it is unlikely that the industry can maintain such strong results indefinitely (1998 and 1999 were record years). Economists are predicting a housing slowdown in 2000 and 2001, but most homebuilders are reporting record backlogs (homes sold but not yet closed), and 2000 is looking like another strong year. Of course, it is possible that if mortgage rate increases make housing less affordable, homebuilders will face higher cancellation rates, resulting in fewer closings.

Third Avenue Funds' investment strategy includes buying common stocks of companies in industries where the near-term outlook is negative, provided the common stock is safe and cheap. The homebuilding industry certainly qualifies as an industry with near-term negative prospects. But at current prices, most homebuilder common stocks appear to be extremely cheap based upon price/earnings and price/book ratios. We believe that if the industry does slow down or the economy goes into a recession, the strongly capitalized and most geographically diverse homebuilders will be able to ride out the cycle and increase market share from smaller and/or weaker companies. We evaluate common stocks of companies in cyclical industries (like homebuilding or title insurance) by analyzing the average annual earn-



ings over the most recent cycle, trying to make reasonable qualitative judgments about the cycle, and then calculating the current price/earnings ratio based on the average earnings. We assume that if a company is well financed, it won't get into trouble during the down cycle, and average earnings over the next cycle will likely be greater than the last one.

**D.R. Horton** is the second largest and one of the most geographically diversified homebuilders in the United States, with operating divisions in 23 states and 40 markets located in the Mid-Atlantic, Midwest, Southeast, Southwest and West. The company sells its homes primarily to first-time and move-up homebuyers. The company also provides mortgage financing and title services for homebuyers. In December 1999, *Professional Builder* magazine selected D.R. Horton as the 1999 "Builder of the Year". The company has a very strong balance sheet (debt to total assets equals about 50%) and a 22-year track record of increased revenues and earnings. The company continues to report record sales, closings, backlogs and earnings, and Horton Common has been trading at an all-time-low PE ratio of about 4.5x on trailing earnings, and at a 10% discount to book value. Since 1994, Horton Common has traded at an average PE ratio of 12.4x (with a high of 25.5x) and an average price/book ratio of 2.2x (with a high of 4.4x). We have been buying Horton Common at about 8.5 times the company's average earnings of \$1.36 per share over the last five years. We expect that the company will earn substantially more than \$1.36 per share on average over the next five years. If we are right, Horton Common should be a homerun. If we are wrong, we still could earn a reasonable return.

**U.S. Home** is the nation's seventh largest homebuilder based on 1999 home deliveries. The company has communities in 33 metropolitan areas in 13 states. The company's products range from lower-end affordable homes to custom move-up homes. The company is also a leading developer of retirement/active adult and intergenerational communities. Additionally, the company provides mortgage-financing services for its homebuyers. Like D.R. Horton, U.S. Home has a very strong balance sheet (debt to total assets equals about 50%) and it is geographically diversified. One of the company's primary goals over the last few years has been to expand its retirement/active adult segment to 33% of total activity. Historically, margins on this product type have been substantially higher than on conventional housing. This transition necessitated larger capital outlays to acquire (including option payments), process for approvals, and develop larger tracts of land than is normally required for conventional housing. Approximately 48% of the company's total lots owned or under option are related to retirement/active adult operations. The company's land strategy has resulted in lower returns on assets and equity relative to its peers. The stock market has penalized U.S. Home Common as illustrated by a five-year average PE ratio of 8.1x and price/book ratio of 87%. At the current trading levels, we have purchased U.S. Home Common at about a 6.7x PE ratio on five-year average earnings and at 61% of book value. We like the company's long-term strategy and believe management has positioned the company to take advantage of the strong demand for retirement/active adult communities. Subsequent to the end of our fiscal quarter, U.S. Home entered into a merger agreement to be acquired. See "Resource Conversion Update" below.

#### **LONG-TERM HEALTHCARE (ASSISTED-LIVING) INDUSTRY**

The Fund made investments in the securities of two companies involved in the ownership and/or operation of assisted living facilities ("ALFs"). During the past five years, the assisted living industry has been one of the fastest growing niche markets in the United States. ALFs have become a preferred alternative for senior citizens who do not require the intensive medical attention provided by a skilled nursing facility ("SNF"), but cannot live independently due to physical and/or cognitive frailties. The assisted living industry has grown due to: (i) increased emphasis by both fed-



eral and state governments on containment of long-term healthcare costs; (ii) limitations imposed in many states on construction of additional SNFs; and (iii) the relative affluence of the elderly segment of the population.

Unfortunately, as is often the case, the industry grew too fast. During the REIT boom of the mid-1990s, the capital markets embraced the industry and equity capital flowed freely to support the rapid development phase. Much of the development was financed by REITs that, fortunately, no longer have access to equity capital. Competition has caused fill-up rates to slow down, resulting in lower-than-expected returns. Despite the industry experiencing some overbuilding, mismanagement, and overly complex accounting, the ALF basic operating model appears to be sound. However, the near-term outlook for the industry appears uncertain. Several high-profile SNF operators have filed bankruptcy as a result of changes to Medicare reimbursement programs, and many REITs that own and lease ALFs also own and lease SNFs to some of these troubled operators. We expect there will be substantial consolidation of ALF operators as well as several bankruptcies.

**CareMatrix Corp.** operates approximately 61 ALFs in 18 states, of which 32 are owned or leased and 29 are managed. CareMatrix's business is closely tied to a privately held related entity, Chancellor Group ("Chancellor"), which is responsible for obtaining all of the financing to develop and build ALFs. CareMatrix earns development fees from Chancellor for coordinating the activities related to the properties during the development and construction phase. Once construction is completed, CareMatrix assumes all management responsibilities pursuant to a 10-year management contract and earns a management fee from Chancellor. During the development, construction and management phase, Chancellor (and not CareMatrix) assumes all risks of construction and operations. CareMatrix has the option to convert the management agreement into a "fair-market-value" lease, generally for a 15-year term plus options. CareMatrix usually exercises its option when the facility reaches profitability. During 1999, Chancellor began having problems obtaining financing for new ALFs which were in the development phase. Additionally, we presume that Chancellor got into a cash crisis due to (i) insufficient financing for projects under construction and (ii) negative cash flow on completed projects as a result of competition and slower fill-up. Consequently, we estimate that CareMatrix has not collected approximately \$60 million of development and management fees from Chancellor, leaving the company in a precarious financial position even though the company's owned and leased properties appear to be operating profitably. The Fund has purchased CareMatrix Notes at a discount to face value, which should result in a yield to maturity of approximately 36% assuming no default. We believe, however, that there is a high likelihood that CareMatrix and/or Chancellor will file Chapter 11. We figure that in the event CareMatrix reorganizes pursuant to a Chapter 11 plan, the holders of CareMatrix Notes will own nearly all of the reorganized company's equity. I should note here that the Third Avenue Value Fund ("TAVF") has also purchased CareMatrix Notes in sufficient quantity such that it will have significant input in any plan of reorganization. Without TAVF's involvement in CareMatrix Notes, it is safe to assume that Third Avenue Real Estate Value Fund, with its limited resources, would not be a player.

**ElderTrust** is a healthcare REIT that owns interests in 15 ALFs, eight SNFs, six medical office buildings and one independent living facility. The Fund made an initial investment in ElderTrust Common during the quarter. Subsequent to quarter-end, we determined that the risks related to the company's largest tenant/operator were significantly higher than originally estimated. As a result, the Fund recently sold its position in ElderTrust Common (at a small profit).



## RESOURCE CONVERSION UPDATE

Due to the nature of our portfolios at Third Avenue Funds, resource conversion activities will more often than not be the catalyst that closes the gap between the price we pay for securities and their intrinsic value. Resource conversions include mergers, management buyouts, tender offers, major share buybacks, hostile takeovers and leveraged buyouts, among others. Fortunately, as value investors, we often do not have to rely on the public markets. We can realize capital appreciation as a result of private market transactions or by the public markets ultimately recognizing intrinsic value. One of the benefits of buying at a discount to net asset value is the creation of multiple exit strategies that would not be available if we “paid up” for securities. The Fund holds positions in 24 companies, of which nearly half are currently involved in material resource conversion activities. These include:

**Avatar Holdings** – Sold its Florida water and wastewater utilities assets and some non-core real estate assets. The company has recently announced board approval for a \$20 million buyback of common shares and convertible notes. The company has approximately \$150 million in cash as a result of asset sales, and we expect that additional buybacks will be initiated.

**Echelon International** – Recently announced a tender offer for 100% of the outstanding common shares at \$34 per share. The Fund’s average cost for Echelon Common is approximately \$22.50 per share.

**St. Joe Company** – Sold its sugar business and farming rights and announced its intent to sell 800,000 acres of timberlands. The company also announced its plan to spin-off to St. Joe shareholders its 54% interest in Florida East Coast Industries, a publicly-traded company that we estimate represents approximately 40% of the value of St. Joe Common at current prices. Furthermore, St. Joe has recently repurchased over 6.5 million common shares, representing approximately 7% of the total outstanding.

**Security Capital Group** – Completed a \$100 million buyback of common shares and announced board approval for an additional \$100 million buyback. Combined, the buybacks will represent more than 12% of the outstanding common shares.

**U.S. Home** – On February 17, 2000, announced that it has entered into a definitive merger agreement with Lennar Corporation. The combined company will become the largest homebuilder in the United States. Lennar will acquire U.S. Home for approximately \$36 per share in cash and stock. The Fund’s average cost for U.S. Home Common is approximately \$25.30 per share.

**Wellsford Real Properties** – Repurchased 1.45 million common shares pursuant to a 2 million-share buyback authorization. The buyback represents approximately 10% of the outstanding common shares.

**AMRESO Capital Trust** – Terminated its merger agreement with Impac Commercial Holdings. We expect that the company will either be acquired or liquidated.

**Commercial Assets** – Entered into a stock-for-stock merger agreement with Asset Investors Corp. We expect the merger to close during the second quarter of 2000.



**Imperial Credit** – Entered into an all-cash merger agreement with Imperial Credit Industries. We expect the merger to close by the end of March 2000.

**Prime Group Realty** – Announced its intention to sell up to \$500 million of its real estate holdings and use half the proceeds to buyback common shares and the balance to pay down debt. At current prices, the share buyback could represent more than 75% of the outstanding common shares.

**United Investors** – Announced board authorization for a buyback of approximately 11% of the outstanding common shares. The buyback will be funded primarily by property sales.

I look forward to writing to you again when we publish our Semi-Annual Report for the period ending April 30, 2000.

Sincerely,

Michael H. Winer  
Co-manager, Third Avenue Real Estate Value Fund



**Third Avenue Trust**  
**Third Avenue Real Estate Value Fund**  
**Portfolio of Investments**  
**at January 31, 2000**  
**(Unaudited)**

	Principal Amount (\$)	Issues	Value	% of Net Assets
<b>Convertible Bonds - 1.54%</b>				
Assisted Living Facilities	500,000	CareMatrix Corp. 6.25%, due 8/15/04	\$ 173,750	1.54%
		<b>Total Convertible Bonds</b> (Cost \$181,609)	<u>173,750</u>	
	<b>Shares</b>			
<b>Common Stocks - 92.69%</b>				
Home Building	20,000	D.R. Horton, Inc.	231,250	
	14,700	U.S. Home Corp. (a)	<u>351,881</u>	
			583,131	5.16%
Natural Resources	11,500	Deltic Timber Corp.	258,750	
	4,000	The TimberWest Forest Corp. (Canada)	<u>26,590</u>	
			285,340	2.52%
Real Estate Development	47,400	Avatar Holdings, Inc. (a)	805,800	
	38,000	Catellus Development Corp. (a)	475,000	
	10,700	Consolidated-Tomoka Land Co.	125,725	
	17,000	Echelon International Corp., Inc. (a)	553,562	
	30,700	Forest City Enterprises, Inc. Class A (b)	800,119	
	37,500	LNR Property Corp.	703,125	
	28,500	St. Joe Co.	675,094	
	60,700	Wellsford Real Properties, Inc. (a)	<u>508,362</u>	
			4,646,787	41.08%
Real Estate Holding Company	25,500	Security Capital Group, Inc. (a)	<u>325,125</u>	2.87%
Real Estate Investment Trust	42,000	Aegis Realty, Inc.	357,000	
	64,000	AMRESCO Capital Trust Inc.	588,000	
	75,500	Anthracite Capital, Inc.	514,344	
	79,300	Commercial Assets, Inc.	381,631	
	2,800	ElderTrust	17,850	
	72,000	Imperial Credit Commercial Mortgage Investment Corp.	810,000	



**Third Avenue Trust**  
**Third Avenue Real Estate Value Fund**  
**Portfolio of Investments (continued)**  
**at January 31, 2000**  
**(Unaudited)**

	Shares	Issues	Value	% of Net Assets
<b>Common Stocks (continued)</b>				
Real Estate	22,000	Koger Equity, Inc.	\$ 346,500	
Investment Trust (continued)	55,800	Prime Group Realty Trust	777,712	
	87,000	United Investors Realty Trust	<u>483,938</u>	
			4,276,975	37.81%
Title Insurance	31,000	First American Financial Corp.	<u>368,125</u>	3.25%
		<b>Total Common Stocks</b> (Cost \$10,478,253)	<u>10,485,483</u>	
	<b>Principal Amount (\$)</b>			
<b>Short Term Investments - 2.84%</b>				
Repurchase Agreements - Collateral on Securities Loaned	321,300	Bear Stearns 6.10%, due date February 1, 2000 (c)	<u>321,300</u>	2.84%
		<b>Total Short Term Investments</b> (Cost \$321,300)	<u>321,300</u>	
		<b>Total Investment Portfolio - 97.07%</b> (Cost \$10,981,162)	<u>10,980,533</u>	
		<b>Other Assets</b>		
		<b>Less Liabilities - 2.93%</b>	<u>331,433</u>	
		<b>NET ASSETS - 100.00%</b> (Applicable to 1,042,495 shares outstanding)	<u>\$ 11,311,966</u>	
		<b>NET ASSET VALUE PER SHARE</b>	<u>\$10.85</u>	

Notes:

- (a) Non-income producing securities.
- (b) Securities in whole or in part on loan.
- (c) Repurchase agreement collateralized by:  
U.S. Treasury Strips, par value \$1,325,000, 8.125%, matures 5/15/21: market value \$328,348.

### **Board of Trustees**

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Chief Financial Officer, Treasurer  
Kerri Wertz, Assistant Treasurer  
Ian M. Kirschner, General Counsel and Secretary

### **Transfer Agent**

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### **Independent Accountants**

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