



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

THIRD QUARTER REPORT
(Unaudited)

July 31, 2000



Third Avenue Value Fund

Dear Fellow Shareholders:

At July 31, 2000, the unaudited net asset value attributable to the 46,023,934 common shares outstanding of the Third Avenue Value Fund (“TAVE,” “Third Avenue,” or the “Fund”) was \$37.10 per share. This compares with an unaudited net asset value, adjusted for a subsequent distribution to shareholders, of \$38.41 per share at April 30, 2000, and an unaudited net asset value, also adjusted for subsequent distributions, of \$29.36 per share at July 31, 1999. At August 25, 2000, the unaudited net asset value was \$39.02 per share.

QUARTERLY ACTIVITY

During the quarter, eight new positions were established, of which two were the debt instruments of troubled companies, five were the common stocks of well-capitalized businesses, and one was the common stock of a company spun-off from 3Com Corp., Palm, Inc. Seventeen existing positions were increased, of which two were debt instruments of troubled companies and fifteen were the common stocks of well-capitalized businesses. During this interim no securities were sold in the open market, but three common stock issues — CNY Financial Corp., Financial Security Assurance Holdings, and Protocol Systems — were eliminated as the result of cash takeovers at substantial premiums over public market prices.

Principal Amount

or

Number of Shares

\$8,452,000

\$12,419,888

10,000 shares

148,000 shares

249,000 shares

700,000 shares

523,300 shares

214,700 shares

New Positions Acquired

Frank's Nursery & Crafts, Inc. 10.25%, due 3/1/08 (“Franks Subordinates”)

Genesis Health Ventures Revolving Loan (“Genesis Bank Debt”)

Alico, Inc. Common Stock (“Alico Common”)

Palm, Inc. Common Stock (“Palm Common”)

Standex International Corp. Common Stock (“Standex Common”)

Trinity Industries, Inc. Common Stock (“Trinity Common”)

USG Corp. Common Stock (“USG Common”)

Value City Department Stores, Inc. Common Stock (“Value City Common”)



**Principal Amount
or
Number of Shares**

Increases in Existing Positions

| | |
|----------------|---|
| \$17,135,000 | CareMatrix Corp. 6.25% due 8/15/04 (“CareMatrix Subordinates”) |
| \$8,229,840 | Safelite Glass Bank Debt (“Safelite Bank Debt”) |
| 25,000 shares | Alamo Group, Inc. Common Stock (“Alamo Common”) |
| 201,000 shares | AVX Corp. Common Stock (“AVX Common”) |
| 212,700 shares | D.R. Horton, Inc. Common Stock (“Horton Common”) |
| 350,000 shares | Electroglas, Inc. Common Stock (“Electroglas Common”) |
| 124,500 shares | Enhance Financial Services Group, Inc. Common Stock (“Enhance Common”) |
| 23,500 shares | Forest City Enterprises, Inc. Class A Common Stock (“Forest City Common”) |
| 572,500 shares | Kendle International Inc. Common Stock (“Kendle Common”) |
| 324,500 shares | Liberty Financial Companies, Inc. Common Stock (“Liberty Common”) |
| 106,900 shares | Mestek, Inc. Common Stock (“Mestek Common”) |
| 965,000 shares | The Nissan Fire & Marine Insurance Co., Ltd. Common Stock (“Nissan Common”) |
| 165,800 shares | Silicon Valley Group, Inc. Common Stock (“Silicon Valley Common”) |
| 366,000 shares | Tecumseh Products Co. Class A and Class B Common Stock (“Tecumseh Common”) |
| 800,000 shares | Toyoda Automatic Loom Works, Ltd. Common Stock (“TAL Common”) |
| 8,300 shares | White Mountains Insurance Group Inc. Common Stock (“White Mountains Common”) |
| 54,600 shares | Woronoco Bancorp, Inc. Common Stock (“Woronoco Common”) |



Peter Lynch has been appearing in many advertisements for Fidelity Investments claiming that earnings drive stock market prices. The fact is that earnings do drive some stock market prices but, in other cases, factors other than earnings are much more important than reported earnings as ultimate determinants of the values of securities.

These other factors in specific cases, include the creation of value through reorganizing, or recapitalizing, companies whether sick or healthy; realizations on the sale, or conversions to other uses or other ownership, of assets; and obtaining access to capital markets at super attractive prices (such as was the case by 1998 and 1999 for dot.com IPO's).

TAVF management attempts to have the securities in its portfolio consist of common stocks acquired at low price:earnings ratios, say, at present, at under 10 times Fund management's best estimate of earnings for the year 2001; common stocks acquired at huge, say 30% or more, price discounts from reasonable estimates of such asset values; or debt instruments of troubled companies where if a money default were to occur on that debt instrument, TAVF likely would participate on a profitable basis in the reorganization, or liquidation, of that troubled company.

At present, the most important parts of the TAVF portfolio consist of securities selling at under 10 times Fund management's best estimate of 2001 earnings; and common stocks selling at huge discounts from Net Asset Value ("NAV"). At July 31, 2000, the functional breakdown of the Third Avenue portfolio was as follows:

| Types of Security | % of Portfolio |
|---|-----------------------|
| Common stocks selling at under 10 times estimated 2001 earnings | 35.7% |
| Common stocks selling at huge discounts from estimated NAV | 24.6 |
| "Grandfathered" buy and hold common stocks most of which reflect substantial unrealized profits | 20.0 |
| Cash and cash equivalents | 16.3 |
| Debt instruments of troubled issuers | 3.4 |
| | <u>100.0%</u> |

SECURITIES SELLING AT LESS THAN 10 TIMES ESTIMATED 2001 EARNINGS

At August 14, 2000 the P:E ratios, based on latest 12 months trailing earnings, for the NASDAQ 100 was 121.5 times; and for the NASDAQ Composite, 141.8 times. At July 28, 2000 the same P:E ratio for the Standard & Poor's 500 was 28.8 times. These ultra-high P:E ratios seem to indicate that speculative excesses exist for those common stocks currently most popular with the investing public and conventional money managers, especially growth managers. At the same time, and in sharp contrast, there apparently is little marketplace interest in the common stocks of smaller, mostly old economy, companies selling at under 10 times earnings (and usually at substantial discounts from the NAV that would be realized if there were to be a takeover). This lack of interest for the under 10 times issues apparently arises either because the near-term outlook for these issuers is clouded or because these companies lack general recognition as "growth" companies. I have, for some time, been characterizing these under 10 times earnings common stocks as issues available at 1974 or 1982 prices. TAVF, of course, has been loading up on these common stocks provided the



companies are both well financed and well entrenched. Common stock positions acquired during the quarter encompassed both issues acquired for the first time — Standex, Trinity, USG and Value City; and increases in existing common stock positions — Alamo, AVX, Horton, Electroglas, Enhance, Kendle, Liberty, Mestek, Silicon Valley and Tecumseh.

Several of these under 10 times issues are participants in new economy industries which are experiencing explosive growth — AVX, Electroglas and Silicon Valley. The Wall Street “buzz” seems to be that semi-conductor equipment and wireless telephony are at cyclical peaks. There seems to be little in the way of tangible evidence indicating that this is actually the case. Even if true, the longer-term outlook for these companies appears to be quite bright.

USG is an interesting bet. For the first time in 25 years, I’ve made an investment in the common stock of a company facing asbestos liabilities. However, USG, and its predecessors, have not manufactured any products containing asbestos since 1972. TAVF is betting that USG can safely handle whatever asbestos liabilities still might be out there without compromising its very good financial position. This now seems a reasonably safe bet.

Alamo and Kendle are comeback stories. 2001, and subsequent years, ought to be considerably more profitable than 1999-2000. Kendle, as an independent company performing clinical tests on new drugs, has promise on a long-term basis as a participant in the expected growth in biotechnology and genetics. Value City is a relatively small discount retailer controlled by the Schottenstein family who are very significant factors in soft goods with some emphasis on distress. If I had to pick one small company, which over time could be an effective, profitable, competitor of Wal-Mart and Target, it would be Value City. Value City Common was selling at around 8 times fiscal 1999 earnings at July 31.

Earnings probably will be lower in 2001 than will be the case in 2000, or was the case in 1999, for Enhance, Horton, Mestek, Standex, Tecumseh and Trinity. At July 31, each of these common stocks were selling at anywhere from 6 times to 8 times latest 12 months earnings. Liberty was selling at 10 times trailing earnings. In 2001, profitability for Liberty will probably be not much better than it was for the trailing 12 months. By and large these well-financed businesses do not seem likely to be faced with really tough, foreseeable, problems. Enhance is an exception. If its claims paying ability were to be downgraded by rating agencies, then its financial insurance subsidiaries would be adversely impacted. A good anchor to windward for the Enhance investment, though, is that at July 31, Enhance Common was selling at about a 31% discount from Adjusted Book Value.

Why would the high quality common stock issues in which Third Avenue is investing be available at 1974 or 1982 prices in the midst of a roaring bull market marked by more speculative excesses than I have seen in my lifetime? To hazard a guess, it appears as if the speculative excesses revolve around the consideration of only five factors by speculators: generally recognized growth; Wall Street sponsorship; the near term outlook; macro forecasts whether for stock market indices, interest rates or GDP; and the demand and supply of securities, i.e., technical approaches where the analysts seem to know the price of everything and the value of nothing. If a common stock issue does not look attractive, based on these five oversimplifications, then, except for value investors, there will be scant interest in that security on the part of either the general public or conventional money managers. Bluntly, unless these people see prospects for good near-term price performance, i.e., doing better than a benchmark consistently, they will remain highly unlike-



ly to acquire a common stock, no matter how cheaply priced. The general public and conventional money managers seem to be infinitely more outlook conscious than they are price conscious.

This emphasis on growth as the element in the evaluation of common stocks emanates, at least in great part, from the algebraic formulas in use in academic finance. Indeed, a reading of the leading texts, say *Principles of Corporate Finance* by Brealey and Myers, or *Corporation Finance* by Ross, Westerfield et. al., shows that in their methodology for valuing common stocks, premium multiples are assigned only to forecasts of growth. Of course, in the real world there are an infinite number of factors that contribute to appreciation potential for common stocks, and for businesses, over and above “growth.” These other factors include strong basic earning power; readily realizable assets available at a discount; strong financial resources that might be used as a competitive advantage, as a safety haven in troubled times, or funds to pursue a massive common stock repurchase program; and even an apparent absence of fraud or overreaching by managements or control groups. In fact, it seems obvious that, on a long-term basis, far more Wall Street fortunes are the results of financial engineering than are the result of paying retail prices for forecasts of growth. For example, it appears that each of the common stocks acquired during the July quarter (except for Palm Common) are extremely attractive candidates for Leveraged Buyouts and Management Buyouts at substantial premiums above July 31 market prices. This may be especially significant now because so many billions of dollars have poured into Wall Street buyout funds where very smart, very diligent, people are searching full time for attractive, and doable, deals. Three of the Fund’s portfolio companies were taken over in cash deals at substantial premiums over market prices during the July 31 quarter. Three takeovers a quarter at premium prices seems to have been, at least, par for the course for TAVF.

REORGANIZATION SECURITIES AND DISCOUNTS FROM NET ASSET VALUE

Opportunities seem to abound in both the United States and Japan for TAVF to invest in the securities of both troubled companies and healthy companies which could benefit from restructuring their capitalizations. In the United States, the Fund is concentrating on the debt instruments of troubled issues though not exclusively. In Japan Third Avenue’s involvement is restricted to investments in the common stocks of very strong, very healthy, blue chips.

THE UNITED STATES

A Fund modus operandi in this country is to acquire the debt instruments of troubled companies. The Fund tries to acquire positions of the most senior issue likely to participate in a reorganization, i.e., a restructuring of the capitalization. Third Avenue usually acquires enough of a class of debt issue so that TAVF will have an important influence on the reorganization process, whether that process takes place out of court, or in a Chapter 11 Case. Unlike most other creditors, TAVF is disposed toward receiving at least a portion of the consideration to be issued in a restructuring in the common stock of the reorganized company, provided that Fund management believes that the reorganized company will be reasonably well-capitalized and reasonably well-managed.

At the time of acquisition of these debt instruments, the Fund usually does not know with certainty whether or not the debt instrument will be a performing loan, i.e., the loan is to be continued to be serviced in cash in accordance with the terms contained in the loan agreement. If the debt instrument is to continue to be a performing loan, TAVF generally acquires at prices that result in it receiving a current yield of over 16% or 17%, and a Yield to Maturity



("YTM") of over 25%. (YTM combines both current yield and an amortization of the difference between the price paid for a bond, say, 55, and the principal payment due at maturity, almost always 100). Third Avenue sometimes acquires loans where workout values will be strictly in the form of cash and/or new debt instruments. Here the Fund looks for yields to workout of at least 30%.

These distress debt investments are only a small part of the TAVF portfolio accounting for 3.4% of net assets at July 31. However, that percentage could grow materially when, as, and if, the troubled company universe expands. A brief review of the six issues, which make up the Fund's current troubled debt portfolio, ought to be helpful in explaining to Third Avenue shareholders what TAVF does in the distressed area.

CAREMATRIX SUBORDINATED DEBENTURES 6¼% DUE 8/15/04

The Fund owns close to half of the outstanding issue of this operator of assisted living facilities for the elderly. The issue was acquired at prices which result in a current yield of 21.0% and a YTM of 46.0%. The company should reorganize in Chapter 11 in which case TAVF is likely to become a dominant shareholder. However, the debenture could remain a performing loan for a while. Fund management is quite high on the Carematrix operating management. Nonetheless, there seem to be huge problems for the Fund, and other bondholders, in dealing with the control shareholder and his captive Board of Directors.

FRANK'S NURSERY SENIOR SUBORDINATED NOTES 10¼% DUE 3/1/08

This is a performing loan that probably will remain a performing loan. The instrument was acquired at a current yield of 26.4% and a YTM of 32.2%. In the event of a money default, there appear to be very large real estate values in Frank's Nursery so that there would be reasonable prospects for a profitable participation in a reorganization for TAVF.

GENESIS HEALTH VENTURES BANK DEBT

This is a Chapter 11 workout in which the Fund expects to receive cash and new debt instruments in about six months. If matters go according to plan the YTM ought to approach 60%.

INNOVATIVE CLINICAL SOLUTIONS ("ICSL") SUBORDINATED DEBENTURES 6¾% DUE 6/15/03

The Fund owns almost half the outstanding issue. ICSL, a site management organization (for drug testing), is in the midst of a pre-packaged Chapter 11. If the pre-pack is successfully concluded, estimated to occur this October, TAVF will end up owning over 40% of the outstanding common stock. ICSL has yet to demonstrate that it can achieve profitability. As such, it ought to be viewed as an interesting, "high beta" venture capital deal. ICSL is the country's largest player in private site management, an industry that should grow as drug testing expands. Success, though, is far from assured. TAVF management remains very favorably impressed with ICSL management.

HECHINGER SENIOR DEBT

This former competitor of Home Depot is in liquidation. Results are disappointing. The ultimate workout for Hechinger ought to result in TAVF just about recovering its \$3.6 million investment in Hechinger Senior Debt. However, a modest shortfall would not be surprising either.



SAFELITE BANK DEBT

This provider of automotive replacement glass installations is the subject of the equivalent of a pre-packaged Chapter 11. On consummation of the reorganization, expected in not more than three months, TAVF will receive new Safelite Secured Loans and new Safelite Common Stock. The expected yield to workout, if nothing goes wrong, based on the Fund's cost, should exceed an annual rate of 60%. However, it seems unlikely that a public market for the new Safelite Common will develop before six months after the reorganization is consummated.

JAPAN

Many of the best and brightest U.S. workout specialists in reorganizing troubled companies, — General Electric, Goldman Sachs, Cerberus and Wilbur Ross, among others — have brought their workout skills to Japan to restructure troubled Japanese debtors. While the opportunities for profiting from restructuring troubled Japanese companies and troubled Japanese real estate, seem huge; the problems for investors in Japan seem infinitely tougher than has been, or is, the case in the United States. In this country there has been a history dating back to pre-colonial days, of seeking to rehabilitate troubled debtors. In contrast, in Japan the strong tendencies are not toward rehabilitation but rather toward either liquidating the troubled debtor's assets in fire sales, or, alternatively, denying that any problems exist. In the United States, there are well-developed bodies of law: the Bankruptcy Code, the Tax Code, Securities Law, and the Commercial Codes in various states. Japan, hopefully, is just starting on this path. Indeed, it's hard to say if bankruptcy reform will take hold in Japan, given the recent mishandling of the Sogo Department Stores matter. In Japan there is this proclivity toward rewarding the common stockholders of troubled debtors by having the debtor seek, and frequently get, loan forgiveness without any consideration whatsoever being given. In the United States, we don't forgive loans for free; rather we convert them to ownership of the business. (See Carematrix, ICSL and Safelite above.)

TAVF is unlikely to be involved in Japan in restructuring troubled companies. However, there exist gigantic profit opportunities which may be realizable when, as and if healthy Japanese companies start to restructure, especially by realizing some of the values existing in various companies' holdings of marketable securities, the so-called cross-holdings. Here, the Japanese national interests would be served by restructurings if the sterile capital tied-up in cross-holdings of minority interests in public companies were freed up. Such a free up would happen if Japan were to emulate the recent German example. Effective in 2002, Germany has eliminated the approximately 50% capital-gains tax that a company would incur if it sold at a profit common shares of other companies held in its portfolio. Japanese authorities might not want to eliminate the approximately 45% tax rate applicable to capital gains altogether, but it could reduce the tax rate to, say, 10%. Tax revenues probably would be greater at a 10% rate, because more activity would take place, than at 45%, a rate so high that it seems to dissuade healthy companies from selling portfolio securities at a profit.

TAVF is trying to use whatever powers of persuasion it can muster to cause a reorganization of Toyoda Automatic Loom Works, Ltd. ("TAL"). At best, this seems as if it might be a two-to-four year project. TAVF has become the largest non-Japanese holder of TAL Common having acquired 3,000,000 shares at an average cost of \$18.38 per share. TAL's NAV at July 31, 2000 seems fairly computed as follows:



(US\$ 000,000 and Per Share)

Per Share
315,000,000 shares*

| | | |
|-------------------------------|---------|----------------|
| Operating businesses | | |
| at 7x operating income of | | |
| \$350 less non-convertible | | |
| long-term debt | \$2,000 | \$6.35 |
| 195.5 shares of Toyota | | |
| Motor Corp Common ("Toyota | | |
| Common") at market of \$42.31 | | |
| per Toyota share | 8,274 | 26.27 |
| Remaining portfolio of | | |
| marketable securities at | | |
| market | 2,788 | <u>8.85</u> |
| NAV — before deferred | | |
| income taxes on unrealized | | |
| capital gains | | <u>\$41.47</u> |
| Deferred capital gains taxes | | |
| on unrealized gains at | | |
| 45% rate | 4,220 | \$13.40 |
| NAV after deduction of | | |
| deferred cap gains taxes | | <u>\$28.07</u> |
| TAVF cost basis as discount | | |
| from NAV before deferred | | |
| capital gains taxes | | 55.7% |
| from NAV after deferred | | |
| capital gains taxes | | 34.5% |
| *All converted basis | | |

The TAVF analysis of TAL is that the Fund has acquired an investment portfolio at a huge discount from NAV, and also absolutely magnificent operating businesses for free, or less than free. TAL is a Toyota affiliate. Toyota owns about 25% of TAL Common and TAL, in turn, is the largest Toyota shareholder with an approximate 5% equity interest in Toyota. TAL is a principal automotive supplier to Toyota. TAL, which originally only manufactured textile equipment, now a minor part of the overall operation, had founded Toyota and spun it off in 1937. The principal TAL operating businesses are as follows:

**Automotive:**

Assembly of certain Toyota cars and the manufacture of engines, both diesel and gasoline, as well as automotive air conditioning compressors. TAL is the world's largest producer of air conditioning compressors with plants in Japan, the US and Europe supplying various automotive assemblers.

Logistics and Fork Lifts:

Adjusted for the recent acquisition of BT Industries of Sweden and the remaining activities of Toyota in logistics and forklifts, TAL has become the world's largest manufacturer of forklifts. These are marketed under the Toyota name. TAL is also a major worldwide player in other materials handling equipment.

Electronics:

TAL now has a joint venture with Sony Corp to produce flat panel LCDs. The company also produces semiconductor related products and has a joint venture with Ibiden. TAL management hopes to grow electronics, now a minor activity, to perhaps $\frac{1}{3}$ of overall revenues in the coming years.

To our knowledge, no broker-dealer research department analyzes TAL the way TAVF does based on our readings of a plethora of research reports published in English. These analyses of TAL focus strictly on PE ratios from operations, pretty much ignoring, or downplaying, the investment company aspects inherent in the TAL portfolio of marketable securities.

There are potential benefits to TAL, as a corporate entity, in taking actions that would result in the realization, at least in part, of the embedded shareholder values. This year, for example, TAL acquired for cash BT Industries of Sweden and all of Toyota's interests in Logistics and Forklifts for an undisclosed consideration. There is no way, given the price of TAL Common, that these productive assets ought to have been paid for with TAL Common, given the public market price of TAL Common. Having a common stock price more closely related to economic reality could prove quite helpful to TAL in the future. This may especially be the case given TAL plans to expand aggressively into electronics.

In the NAV calculation above, deferred capital gains taxes were deducted from NAV at a 45% rate. In other words, the deferred taxes were treated exactly as if they were an actual payable, similar to accounts payable or interest bearing debt instruments. This is how accounting is done. However, the 45% rate is utterly unrealistic. In terms of economic reality, the deferred capital gains taxes are a materially smaller liability than would be indicated by a 45% rate because the item is in no way the economic equivalent of an actual liability:

- a) Management controls the timing of when the capital gains tax might become payable, if ever.
- b) Management can use tax planning to ameliorate the effect of potential capital gains taxes, realizing losses on specific portfolio securities in a given year to offset realized gains.
- c) Until the capital gains tax is due, TAL has the use of the money.
- d) Tax laws change over time; in the case of Japan, the odds would seem to favor a reduction, not an increase, in capital gains tax rates.



While deferred taxes on unrealized capital gains are not a true liability, neither are they as valuable as tax-paid retained earnings. The economic truth lies somewhere in between:

- a) There is always a possibility that the deferred capital gains tax on unrealized gains will become an actual tax payable.
- b) The existence of a deferred tax liability can limit the flexibility of management, and control stockholders, in terms of what can be done in resource conversion activity, say mergers and acquisitions, without triggering an actual tax payable.

In sum, accounting rules and conventional security analysis notwithstanding, deferred taxes on unrealized appreciation are a liability which has a major net worth component; or vice versa, a net worth figure with a liability component. The percentage of the deferred tax liability that should in reality be assigned to net worth is a matter of analytic judgment. In the case of TAL, Fund management is inclined to assign 75% of the \$13.40 per share liability to net worth in the computation of NAV — albeit there is no hard and fast answer.

The chances may be slim that the discount at which TAL Common sells relative to NAV will narrow materially absent some sort of catalyst. A great catalyst would be for TAL to spin off to its stockholders the common stock of a new company consisting of the operating businesses and enough of the marketable securities so that the operating businesses would remain with an extremely strong financial position. TAL could then become an investment company, — hopefully an open-end mutual fund.

To accomplish this, at the minimum both TAL management and Toyota management would have to see benefits from a spin-off for the various constituencies affected. Among other things, there would have to be clarification of the Japanese Tax Code to assure both TAL and Toyota that no corporate taxes would be incurred because of the spin-off, and that the transaction would be tax-free (i.e., tax deferred) for TAL shareholders. This seems like a Herculean task, the resolution of which TAVF might not contribute much to at all. Nonetheless, it ought to be noted that TAL spin-offs are not without precedent (see the 1937 spin-off of Toyota); Toyota management seems very Western oriented at least in recognizing outside, minority shareholders as a legitimate constituency; and sooner or later the Japanese government ought to start realizing that important macro benefits could flow to the overall economy if corporate Japan could be encouraged to unwind some of the huge amount of cross-holdings in existence.

The steep discount from NAV at which TAL common sells probably would be quite difficult to find in the United States, the large size and high quality of the underlying TAL company considered. Having said this, it should be noted that a very substantial portion of the TAVF portfolio, almost 25%, consists of high quality companies, where the common stocks are selling at large discounts from NAV, and where the amount of NAV seems reasonably easy to appraise. These TAL type issues whose common stocks are in the TAVF portfolio include Alico, Alexander & Baldwin, Arch Capital, Capital Southwest, Catellus Development, Forest City Enterprises, St. Joe, Tejon Ranch and six Japanese non-life insurers.

Third Avenue management remains hopeful that a TAL catalyst will emerge in the years just ahead. The odds may be against it. However, the Fund owns enough high-grade issues of “discount from NAV common stocks” that the over-



all performance of the NAV sub-portfolio ought to be okay even if TAL Common is a non-performer. Given the prices the Fund has paid for TAL Common relative to NAV, the cost of no catalyst developing seems minimal; — the rewards for success, enormous.

I will write you again when the Annual Report for the fiscal year to end October 31, 2000 is published.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Martin J. Whitman".

Martin J. Whitman
Chairman of the Board



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

| Principal Amount (\$) | Issues | Value | % of Net Assets |
|--|--|--------------------|--------------------|
| Asset Backed Securities - 6.44% | | | |
| 13,350,000 | Capital Auto Receivables Asset Trust Series 1999-1 Class A-2, 5.58% due 6/15/02 | \$ 13,274,773 | |
| 7,900,000 | Capital Auto Receivables Asset Trust Series 2000-1 Class A-2, 6.81% due 2/17/03 | 7,885,583 | |
| 2,495,000 | Chase Credit Card Master Trust Series 1997-2 Class A, 6.30% due 4/15/03 | 2,495,836 | |
| 4,583,906 | Ford Credit Auto Owner Trust Series 1999-B Class A-3, 5.47% due 9/15/01 | 4,574,395 | |
| 6,649,250 | Ford Credit Auto Owner Trust Series 1998-B Class A-3, 5.85% due 10/15/01 | 6,638,844 | |
| 4,000,000 | Ford Credit Auto Owner Trust Series 2000-B Class A-1, 6.59% due 10/15/01 | 3,998,180 | |
| 7,481,298 | Ford Credit Auto Owner Trust Series 1999-C Class A-3, 5.77% due 11/15/01 | 7,463,904 | |
| 6,515,995 | Ford Credit Auto Owner Trust Series 1998-C Class A-4, 5.81% due 3/15/02 | 6,493,091 | |
| 13,619,000 | Ford Credit Auto Owner Trust Series 1999-B Class A-4, 5.80% due 6/15/02 | 13,502,081 | |
| 1,400,000 | Ford Credit Auto Owner Trust Series 1998-B Class A-4, 5.90% due 6/15/02 | 1,388,359 | |
| 17,500,000 | Ford Credit Auto Owner Trust Series 2000-A Class A-3, 6.82% due 6/17/02 | 17,481,187 | |
| 5,000,000 | Ford Credit Auto Owner Trust Series 2000-C Class A-3, 7.13% due 9/15/02 | 5,001,425 | |
| 15,000,000 | Ford Credit Auto Owner Trust Series 1999-C Class A-4, 6.08% due 9/16/02 | 14,870,775 | |
| 5,000,000 | Ford Credit Auto Loan Master Trust Series 1996-1 Class A, 5.50% due 2/15/03 | 4,957,525 | |
| | Total Asset Backed Securities (Cost \$109,829,938) | 110,025,958 | 6.44% |



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

| | Principal Amount (\$) | Issues | Value | % of Net Assets |
|--|--------------------------|---|-------------------|--------------------|
| Bank and Other Debt - 0.94% | | | | |
| Healthcare | 12,419,888 | Genisis Health Ventures Revolving Loan | \$ 7,886,628 | 0.46% |
| Auto Supply | 4,064,333 | Safelite Glass Bank Debt A (c) | 1,869,593 | |
| | 5,713,137 | Safelite Glass Bank Debt B (c) | 2,628,043 | |
| | 5,713,137 | Safelite Glass Bank Debt C (c) | 2,628,043 | |
| | | | <u>7,125,679</u> | 0.42% |
| Oil Services | 1,067,230 | Cimarron Petroleum Corp. (c) (d) | 1,019,754 | 0.06% |
| Retail | 284,760 | Lechmere, Inc. Trade Claim (a) (c) | 3,702 | |
| | 150,959 | Montgomery Ward Trade Claim (a) (c) | 53,402 | |
| | | | <u>57,104</u> | 0.00% |
| | | Total Bank and Other Debt (Cost \$17,096,524) | <u>16,089,165</u> | |
| Convertible Bonds - 1.76% | | | | |
| Assisted Living Facilities | 56,534,000 | CareMatrix Corp. 6.25%, due 8/15/04 | 13,992,165 | 0.82% |
| Pharmaceutical Services | 49,155,000 | Innovative Clinical Solutions, Ltd. 6.75%, due 6/15/03 | 15,975,375 | 0.94% |
| | | Total Convertible Bonds (Cost \$40,199,260) | <u>29,967,540</u> | |
| Corporate Bonds - 0.79% | | | | |
| Bermuda Based Financial Institutions | 7,500,000 | CGA Special Account Trust (b) (c) | 7,500,000 | 0.44% |
| Lawn and Garden Retail | 8,452,000 | Frank's Nursery & Crafts, Inc. 10.25%, due 3/1/08 | 3,127,240 | 0.18% |
| Hard Goods Retail | 24,900,000 | Hechinger Co. 6.95%, due 10/15/03 * | 2,116,500 | |
| | 8,500,000 | Hechinger Co. 9.45%, due 11/15/12 * | 722,500 | |
| | | | <u>2,839,000</u> | 0.17% |
| | | Total Corporate Bonds (Cost \$14,374,131) | <u>13,466,240</u> | |
| | Shares | | | |
| Common Stocks and Warrants - 77.98% | | | | |
| Annuities & Mutual Fund | 10,000 | Atalanta/Sosnoff Capital Corp. (a) | 100,000 | |
| Management & Sales | 163,300 | John Nuveen & Co., Inc. Class A | 7,297,469 | |



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

| | Shares | Issues | Value | % of Net Assets |
|---|-----------|---|-------------------|--------------------|
| Common Stocks and Warrants (continued) | | | | |
| | 1,050,000 | Liberty Financial Companies, Inc. | \$ 23,100,000 | |
| | | | <u>30,497,469</u> | 1.78% |
| Apparel Manufacturers | 150,000 | Kleinerts, Inc. (a) (c) | <u>1,800,000</u> | 0.10% |
| 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) | 436,780 | |
| | 15,675 | ESG Re, Ltd. Warrants (c) | 1 | |
| | 295,217 | LaSalle Re Holdings, Ltd. | 5,018,689 | |
| | 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) | <u>905</u> | |
| | | | <u>5,563,746</u> | 0.33% |
| Building Materials | 523,300 | USG Corp. | <u>15,371,938</u> | 0.90% |
| Business Development | 432,300 | Arch Capital Group, Ltd. (a) | 6,700,650 | |
| & Investment Companies | 78,245 | Capital Southwest Corp. | <u>4,499,087</u> | |
| | | | <u>11,199,737</u> | 0.66% |
| Computerized Trading | 223,600 | Investment Technology Group, Inc. | <u>10,872,550</u> | 0.64% |
| Computers, Networks | 100,000 | 3Com Corp. (a) | 1,356,250 | |
| & Software | 148,000 | Palm, Inc. | <u>5,772,000</u> | |
| | | | <u>7,128,250</u> | 0.42% |
| Depository Institutions | 53,000 | Astoria Financial Corp. | 1,543,625 | |
| | 69,566 | Banknorth Group, Inc. | 1,065,229 | |
| | 218,500 | Carver Bancorp, Inc. (b) | 2,266,937 | |
| | 61,543 | Commercial Federal Corp. | 1,092,388 | |
| | 197,307 | Golden State Bancorp, Inc. (a) | 3,773,496 | |
| | 53,480 | Golden State Bancorp, Inc. Warrants, 9/17/00 (a) | 434,525 | |
| | 197,307 | Golden State Bancorp, Inc. Litigation Tracking Warrants (a) | 228,136 | |
| | 41,100 | Tompkins Trustco, Inc. | 986,400 | |
| | 402,800 | Woronoco Bancorp, Inc. (b) | <u>4,783,250</u> | |
| | | | <u>16,173,986</u> | 0.95% |



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

| | Shares | Issues | Value | % of Net Assets |
|---|-----------|---|--------------------|--------------------|
| Common Stocks and Warrants (continued) | | | | |
| Electronics | 3,534,400 | AVX Corp. | \$84,604,699 | |
| | 1,125,000 | Electro Scientific Industries, Inc. (a) | 51,117,188 | |
| | | | <u>135,721,887</u> | 7.95% |
| Financial Insurance | 200,000 | Ambac Financial Group, Inc. (j) | 12,887,500 | |
| | 1,951,000 | Enhance Financial Services Group, Inc. | 30,850,187 | |
| | 1,076,073 | MBIA Inc. | 59,923,815 | |
| | | | <u>103,661,502</u> | 6.07% |
| Food Manufacturers & Purveyors | 328,000 | J & J Snack Foods Corp. (a) | 4,879,000 | |
| | 109,100 | Weis Markets, Inc. | 3,818,500 | |
| | | | <u>8,697,500</u> | 0.51% |
| Home Building | 657,000 | D.R. Horton, Inc. | 10,183,500 | 0.60% |
| Industrial Equipment | 423,900 | Alamo Group, Inc. | 5,510,700 | |
| | 123,900 | Cummins Engine Co., Inc. | 3,964,800 | |
| | 125,200 | Mestek, Inc. (a) | 2,104,925 | |
| | 249,000 | Standex International Corp. | 4,295,250 | |
| | 385,400 | Tecumseh Products Co. Class A (b) | 13,681,700 | |
| | 626,400 | Tecumseh Products Co. Class B (b) (j) | 21,924,000 | |
| | 700,000 | Trinity Industries, Inc. | 13,475,000 | |
| | | | <u>64,956,375</u> | 3.80% |
| Industrial-Japan | 3,000,000 | Toyoda Automatic Loom Works, Ltd. | 68,308,536 | 4.00% |
| Insurance Holding Companies | 87,035 | ACE Ltd. | 3,133,260 | |
| | 200,678 | ACMAT Corp. Class A (a) (b) | 1,404,746 | |
| | 803,669 | Danielson Holding Corp. (a) (b) (c) | 4,018,345 | |
| | 5,490 | Sen-Tech International Holdings, Inc. (a) (c) | 3,294,000 | |
| | 58,300 | White Mountains Insurance Group Inc. | 9,153,100 | |
| | | | <u>21,003,451</u> | 1.23% |



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

| | Shares | Issues | Value | % of Net Assets |
|---|-----------|---|--------------------|--------------------|
| Common Stocks and Warrants (continued) | | | | |
| Manufactured Housing | 89,000 | Liberty Homes, Inc. Class A | \$ 550,688 | |
| | 40,000 | Liberty Homes, Inc. Class B (j) | 250,000 | |
| | | | <u>800,688</u> | 0.05% |
| Medical Supplies & Services | 145,500 | Analogic Corp. | 6,693,000 | |
| | 342,300 | Datascope Corp. | 12,921,825 | |
| | 554,950 | Prime Medical Services, Inc. (a) | 4,508,969 | |
| | 90,750 | St. Jude Medical, Inc. (a) | 3,743,437 | |
| | | | <u>27,867,231</u> | 1.63% |
| Natural Resources & Real Estate | 1,160,000 | Alexander & Baldwin, Inc. | 29,217,500 | |
| | 10,000 | Alico, Inc. | 167,500 | |
| | 179,600 | Catellus Development Corp. (a) | 3,098,100 | |
| | 31,000 | Consolidated-Tomoka Land Co. | 375,875 | |
| | 573,500 | Forest City Enterprises, Inc. Class A | 19,714,062 | |
| | 7,500 | Forest City Enterprises, Inc. Class B | 273,750 | |
| | 473,489 | HomeFed Corp. (a) | 333,810 | |
| | 1,180,336 | Koger Equity, Inc. | 19,991,941 | |
| | 14,600 | LNR Property Corp. | 296,562 | |
| | 846 | Public Storage, Inc. | 21,679 | |
| | 238,200 | The St. Joe Co. | 7,086,450 | |
| | 3,045,508 | Tejon Ranch Co. (a) (b) (c) | 73,663,225 | |
| | | | <u>154,240,454</u> | 9.03% |
| Non-Life Insurance-Japan | 7,319,000 | Mitsui Marine & Fire Insurance Co., Ltd. | 32,595,282 | |
| | 7,399,000 | The Chiyoda Fire & Marine Insurance Co., Ltd. | 22,755,485 | |
| | 2,344,000 | The Nissan Fire & Marine Insurance Co., Ltd. | 7,144,753 | |
| | 3,246,000 | The Sumitomo Marine & Fire Insurance Co., Ltd. | 18,010,894 | |
| | 1,520,800 | The Tokio Marine & Fire Insurance Co., Ltd., Sponsored ADR | 76,610,300 | |
| | 3,000,000 | The Yasuda Fire & Marine Insurance Co., Ltd. | 13,908,111 | |
| | | | <u>171,024,825</u> | 10.02% |



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

| | Shares | Issues | Value | % of Net Assets |
|---|---------------------------------|--|--------------------|--------------------|
| Common Stocks and Warrants (continued) | | | | |
| Oil Services | 500,000 | Nabors Industries, Inc. (a) | \$ 20,812,500 | 1.22% |
| Paper & Related Products | 110,174,479 | Repap Enterprises Inc. (a) (b) | 7,602,039 | 0.45% |
| Pharmaceutical Services | 919,500 | Kendle International Inc. (a) | 6,953,719 | |
| | 588,000 | PAREXEL International Corp. (a) | 5,843,250 | |
| | 400,000 | Pharmaceutical Product Development, Inc. (a) (j) | 8,550,000 | |
| | | | <u>21,346,969</u> | 1.25% |
| Retail | 214,700 | Value City Department Stores, Inc. | 1,878,625 | 0.11% |
| Security Brokers, Dealers & Flotation Companies | 223,600 | Jefferies Group, Inc. | 5,981,300 | |
| | 893,332 | Legg Mason, Inc. | 46,453,264 | |
| | 1,086,250 | Raymond James Financial, Inc. | 27,156,250 | |
| | | | <u>79,590,814</u> | 4.66% |
| Semiconductor Equipment Manufacturers and Related | 200,000 | Applied Materials, Inc. (a) | 15,175,000 | |
| | 1,004,500 | C.P. Clare Corp. (a) (b) | 5,336,406 | |
| | 1,742,300 | Electroglas, Inc. (a) (b) | 34,846,000 | |
| | 2,320,900 | FSI International, Inc. (a) (b) | 38,149,794 | |
| | 100,000 | GaSonics International Corp. (a) | 2,400,000 | |
| | 100,000 | KLA-Tencor Corp. (a) | 5,325,000 | |
| | 300,000 | Photronics, Inc. (a) | 7,443,750 | |
| | 4,094,200 | Silicon Valley Group, Inc. (a) (b) | 103,890,325 | |
| 500,000 | Veeco Instruments, Inc. (a) (j) | 39,375,000 | | |
| | | | <u>251,941,275</u> | 14.75% |
| Small-Cap Technology | 424,000 | Hypercom Corp. (a) | 3,975,000 | |
| | 247,200 | Planar Systems, Inc. (a) | 3,599,850 | |
| | 1,499 | Simione Central Holdings, Inc. (a) | 2,811 | |
| | | | <u>7,577,661</u> | 0.44% |
| Title Insurance | 3,201,800 | First American Corp. (b) | 49,828,013 | |
| | 1,951,400 | Stewart Information Services Corp. (b) | 25,856,050 | |
| | | | <u>75,684,063</u> | 4.43% |



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

| Shares | Issues | Value | % of Net Assets |
|---|-----------------------------------|---|--------------------|
| Common Stocks and Warrants (continued) | | | |
| Total Common Stocks and Warrants | | | |
| (Cost \$896,299,749) | | \$1,331,507,571 | |
| Preferred Stock - 1.53% | | | |
| Bermuda Based | 665,746 | CGA Group, Ltd., Series A (b) (c) | 16,643,651 |
| Financial Institutions | 6,045,667 | CGA Group, Ltd., Series C (b) (c) | 7,039,176 |
| | | <u>23,682,827</u> | 1.39% |
| Financial Insurance | 2,500 | American Capital Access Holdings, LLC (c) | 2,500,000 |
| Insurance Holding Companies | 4,775 | Ecclesiastical Insurance, 8.625% | 7,152 |
| | | <u>7,152</u> | 0.00% |
| | Total Preferred Stock | | |
| | | (Cost \$23,969,001) | <u>26,189,979</u> |
| | Investment Amount (\$) | | |
| Limited Partnerships - 0.76% | | | |
| Bermuda Based | 2,215,000 | ESG Partners, LP (c) | 390,150 |
| Financial Institutions | | | <u>390,150</u> |
| Financial Insurance | 15,000,000 | American Capital Access Holdings, LLC (c) | 7,500,000 |
| Insurance Holding Companies | 3,667,341 | Head Insurance Investors LP (c) | 3,713,329 |
| | 1,330,000 | Insurance Partners II Equity Fund, LP (c) | 1,330,000 |
| | | <u>5,043,329</u> | 0.30% |
| | Total Limited Partnerships | | |
| | | (Cost \$22,267,756) | <u>12,933,479</u> |



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

| | Notional Principal (\$) | Issues | Value | % of Net Assets |
|---|----------------------------------|---|-------------------------------|--------------------|
| Foreign Currency Swap Contracts - (0.23%) | | | | |
| | 50,000,000 | Bear Stearns Currency Swap, Termination Date 10/27/00 (c) (e) | \$ 2,389,800 | |
| | 150,000,000 | Bear Stearns Currency Swap, Termination Date 4/17/01 (c) (f) | (6,397,888) | |
| | | | <u>(4,008,088)</u> | (0.23%) |
| | | Total Other Investments (Cost \$0) | <u>(4,008,088)</u> | |
| | Principal Amount (\$) | | | |
| Short Term Investments - 10.32% | | | | |
| Repurchase Agreements | 61,186,524 | Bear Stearns 6.57%, due 8/1/00 (g) | <u>61,186,524</u> | 3.58% |
| Repurchase Agreements - Collateral on Securities Loaned | 1,339,797 5,054,600 | Bear Stearns 3.34%, due 8/1/00 (i) Bear Stearns 6.81%, due 8/1/00 (i) | 1,339,797 <u>5,054,600</u> | |
| | | | <u>6,394,397</u> | 0.38% |
| U.S. Treasury Bills | 40,000,000 | U.S. Treasury Bill 5.87% [†] , 10/26/00 | 39,426,680 | |
| | 35,000,000 | U.S. Treasury Bill 5.99% [†] , 10/26/00 | 34,495,825 | |
| | 570,000 | U.S. Treasury Bill 5.57% [†] , 12/07/00 (h) | 557,860 | |
| | 35,000,000 | U.S. Treasury Bill 5.96% [†] , 12/21/00 | <u>34,163,360</u> | |
| | | | <u>108,643,725</u> | 6.36% |
| | | Total Short Term Investments (Cost \$176,266,140) | <u>176,224,646</u> | |
| | | Total Investment Portfolio - 100.29% (Cost \$1,300,302,499) | <u>1,712,396,490</u> | |
| | | Liabilities Net of Cash and Other Assets - (0.29%) | <u>(4,885,152)</u> | |
| | | NET ASSETS - 100.00% (Applicable to 46,023,934 shares outstanding) | <u>\$1,707,511,338</u> | |
| | | NET ASSET VALUE PER SHARE | <u>\$37.10</u> | |



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

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 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%.
 - (f) The Fund is selling 15.9 billion Yen and paying an interest rate of 0.38% in exchange for 150 million U.S. Dollars and an interest rate of 6.85%.
 - (g) Repurchase agreement collateralized by:
 - U.S. Treasury Strips, par value \$64,410,000, matures 11/15/16, market value \$24,053,270.
 - U.S. Treasury Strips, par value \$38,447,000, matures 5/15/17, market value \$13,925,119.
 - U.S. Treasury Strips, par value \$68,460,000, matures 8/15/17, market value \$24,432,005.
 - (h) Security segregated for future Fund commitments.
 - (i) Repurchase agreements collateralized by:
 - U.S. Treasury Strips, par value \$3,660,000, matures 11/15/16, market value \$1,366,790.
 - U.S. Treasury Strips, par value \$14,450,000, matures 8/15/17, market value \$5,156,916.
 - (j) Securities in whole or in part on loan.
 - * Issuer in default.
 - + Annualized yield at date of purchase.
- ADR: American Depository Receipt.



Third Avenue Small-Cap Value Fund

Dear Fellow Shareholders:

At July 31, 2000, the end of the third fiscal quarter, the unaudited net asset value attributable to the 10,009,958 common shares outstanding of Third Avenue Small-Cap Value Fund (“Small-Cap Value” or the “Fund”) was \$13.26 per share. This compares with the Fund’s unaudited net asset value of \$12.51 per share at April 30, 2000; and an unaudited net asset value, adjusted for a subsequent distribution to shareholders, of \$11.54 per share at July 31, 1999. At August 25, 2000, the net asset value was \$14.05.

QUARTERLY ACTIVITY

During the quarter, Small-Cap Value established two new positions, added to four of its 37 existing positions, reduced its holdings in three companies, and eliminated positions in three companies. At July 31, 2000, Small-Cap Value held positions in 36 companies, the top 10 positions of which accounted for approximately 40% of the Fund’s net assets.

Number of Shares

150,000 shares

38,400 shares

1,000 shares

12,400 shares

14,000 shares

10,000 shares

208,400 shares

24,300 shares

5,000 shares

210,000 shares

76,000 shares

283,000 shares

New Positions Acquired

Trinity Industries, Inc. Common Stock (“Trinity Common”)

USG Corp. Common Stock (“USG Common”)

Increases in Existing Positions

Bel Fuse, Inc. Class B Common Stock (“Bel Fuse B Common”)

Century Aluminum Co. Common Stock (“Century Common”)

Enhance Financial Services Group, Inc. Common Stock (“EFS Common”)

Silicon Valley Group, Inc. Common Stock (“SVG Common”)

Decreases in Existing Positions

ACT Networks, Inc. Common Stock (“ACT Common”)

Centigram Communications Corp. Common Stock (“Centigram Common”)

ValueVision International, Inc. Class A Common Stock (“ValueVision Common”)

Positions Eliminated

Evans & Sutherland Computer Corp. Common Stock (“E&S Common”)

Financial Security Assurance Holdings Ltd. Common Stock (“FSA Common”)

Protocol Systems, Inc. Common Stock (“Protocol Common”)



Our new positions in Trinity Common and USG Common represent archetype investments for Third Avenue. Both companies are well financed and reasonably managed, and both companies can boast of long-standing and leading positions in their respective businesses. While the near-term earnings outlook for each has weakened meaningfully, a weakening that largely accounts for the currently depressed stock prices (and our opportunity), in each case both companies have real, longer-term opportunities to expand and build their businesses.

Trinity Industries is a diversified industrial company that manufactures and markets railroad freight cars, inland barges, concrete and aggregates, and highway construction products. A downturn in the rail segment, the company's main business, has translated to temporarily lower earnings and, not surprisingly, low expectations. The company's other businesses appear to be growing and we expect that, in time, growth in the rail segment will resume as well. With only very modest levels of financial leverage, this combination of industrial businesses has historically and should continue to produce attractive returns on equity. Management has suggested that it will continue to grow the business in a manner that makes it less cyclical, and use its prominent market positions to leverage the tools of the "New Economy." The public markets today value the company at levels significantly below what a financial or strategic buyer might pay for the entire business. Trinity Common can be purchased today at levels not seen in several years.

USG Corporation is the largest supplier of gypsum wallboard in the United States and, through its L&W Supply subsidiary, the leading specialty building products distributor in the United States. The company also produces ceiling tiles, joint compounds and other building products. USG produces its wallboard under its SHEETROCK brand name, a name that should be familiar to many of you do-it-yourselfers. USG Common appears to be depressed for at least a couple of reasons. For one, the company continues to carry an asbestos-related liability, a liability that we think is containable and manageable, and one that could achieve considerable clarification in the next two or three years. Secondly, it looks as if more wallboard manufacturing capacity is set to come on stream by year-end, pressuring pricing just as demand may be ebbing with a peak in the building cycle. The currently depressed levels of USG Common seem to discount these negatives and a whole lot more. The markets have priced USG Common as if a severe recession were just around the next bend. Nevertheless, we believe that we own a well managed and operationally sound business with very attractive, longer-term earning power.

The Fund also made significant sales of holdings during the quarter, largely in response to merger and acquisition activity. The number of positions sold in part or total and the dollar amount of sales activity during the quarter should be regarded as somewhat of an anomaly in as much as they coincided in the same quarter. As a result of these sales, however, the Fund presently sits with higher than normal levels of cash.

Two positions, Protocol Common and FSA Common, were sold to corporate buyers who made cash offers for those companies. The Fund sold a large majority of its position in ACT Networks in response to a stock-for-stock deal from Clarent Corporation. ADC Telecommunications acquired Centigram Communications on July 26; the Fund received the proceeds from this acquisition on August 7, 2000. In each case, the buyers paid significant premiums to both the Fund's cost and current market prices. This buyout activity, no doubt, has been a significant positive contributor to the Fund's overall performance to date.



E&S Common was sold in response to negative developments at that company. Evans & Sutherland's balance sheet has weakened considerably since the Fund's initial purchases, business conditions have become undeniably more difficult, and management — despite much optimism — utterly failed to improve the earning power and economics of the business during the past three years.

The sales activity accounted for approximately \$15 million of the \$24 million of cash reported at quarter's end. Had these resource conversion events not all occurred during the same quarter, the Fund's cash position would have been in its normal 5% to 10% range. It's possible that the cash position of the Fund may increase, at least temporarily, during the fourth quarter as we execute the Fund's tax planning strategies (which may entail some sales to realize capital losses). All of this cash should be a source of comfort, as it provides us with a "war chest" for future acquisitions.

WHY INVEST IN SMALL CAP STOCKS?

I have been asked repeatedly during the past year, "Why invest in small cap, value stocks?" I think the answer can be summed up neatly in two letters, "M and A." As noted above, the Fund has benefited from heightened merger and acquisition activity as the values of our underpriced assets get recognized by corporate or financial buyers. The recent leveraged buyouts ("LBO") of Johns Manville and MascoTech (not owned by our Fund) by two high-profile groups underscore the opportunities that exist in many smaller, undervalued companies. As private equity and LBO firms have raised record amounts of capital during the past two years — more than \$100 billion by some estimates — we expect the flurry of M&A activity to continue unabated as this new capital gets allocated and as long as the public markets continue to ignore the values inherent in the kinds of businesses owned by the Fund.

I look forward to writing you again when we publish our Annual Report dated October 31, 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 July 31, 2000
(Unaudited)

| | Shares | Issues | Value | % of Net Assets |
|--------------------------------------|-----------|--|--------------|--------------------|
| Common Stocks - 81.72% | | | | |
| Bermuda Based Financial Institutions | 135,400 | LaSalle Re Holdings, Ltd. | \$ 2,301,800 | 1.73% |
| Building Materials | 38,400 | USG Corp. | 1,128,000 | 0.85% |
| Construction-Japan | 293,900 | Sawako Corp., Sponsored ADR | 1,249,075 | 0.94% |
| Financial Insurance | 41,500 | Enhance Financial Services Group, Inc. | 656,219 | |
| | 154,822 | MBIA Inc. | 8,621,650 | |
| | | | 9,277,869 | 6.99% |
| Industrial Equipment | 310,000 | Alamo Group, Inc. | 4,030,000 | |
| | 150,000 | Trinity Industries, Inc. | 2,887,500 | |
| | | | 6,917,500 | 5.21% |
| Life Insurance | 179,000 | FBL Financial Group, Inc. Class A | 2,416,500 | 1.82% |
| Manufactured Housing | 184,300 | Skyline Corp. | 3,720,556 | 2.80% |
| Media | 120,000 | ValueVision International, Inc. Class A (a) | 1,867,500 | 1.41% |
| Metal & Metal Products | 39,000 | Century Aluminum Co. | 511,875 | 0.38% |
| Natural Resources & Real Estate | 187,500 | Alexander & Baldwin, Inc. | 4,722,656 | |
| | 187,300 | Alico, Inc. | 3,137,275 | |
| | 139,000 | Avatar Holdings, Inc. (a) (b) | 2,919,000 | |
| | 126,900 | Cabot Industrial Trust | 2,601,450 | |
| | 227,400 | Deltic Timber Corp. | 4,704,338 | |
| | 206,000 | Koger Equity, Inc. | 3,489,125 | |
| | 200,000 | Tejon Ranch Co. (a) (d) | 4,837,500 | |
| | 1,104,700 | The TimberWest Forest Corp. (Canada) | 7,435,352 | |
| | | | 33,846,696 | 25.50% |
| Non-Life Insurance-Japan | 2,025,000 | The Nissan Fire & Marine Insurance Co., Ltd. | 6,172,409 | 4.65% |



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

| | Shares | Issues | Value | % of Net Assets |
|---|------------|--|--------------------|--------------------|
| Common Stocks (continued) | | | | |
| Paper & Related Products | 12,253,700 | Repap Enterprises Inc. (a) | \$ 845,505 | 0.64% |
| Pharmaceutical Services | 76,400 | Kendle International Inc. (a) | 577,775 | |
| | 58,100 | PAREXEL International Corp. (a) | 577,369 | |
| | 93,000 | Pharmaceutical Product Development, Inc. (a) (b) | 1,987,875 | |
| | | | <u>3,143,019</u> | 2.37% |
| Retail | 426,100 | HomeBase, Inc. (a) (b) | 1,038,619 | |
| | 261,700 | Value City Department Stores, Inc. (a) | 2,289,875 | |
| | | | <u>3,328,494</u> | 2.51% |
| Semiconductor Equipment Manufacturers and Related | 484,800 | C.P. Clare Corp. (a) (c) | 2,575,500 | |
| | 100,000 | Electroglas, Inc. (a) (b) | 2,000,000 | |
| | 293,900 | FSI International, Inc. (a) | 4,830,981 | |
| | 109,000 | Silicon Valley Group, Inc. (a) | 2,765,875 | |
| | 150,000 | SpeedFam-IPEC, Inc. (a) | 2,971,875 | |
| | | | <u>15,144,231</u> | 11.41% |
| Technology | 94,400 | ACT Networks, Inc. (a) | 1,286,200 | |
| | 26,000 | Bel Fuse, Inc. Class A (a) | 786,500 | |
| | 133,400 | Bel Fuse, Inc. Class B (b) | 3,668,500 | |
| | 165,000 | Centigram Communications Corp. (a) | 4,320,938 | |
| | 257,300 | Planar Systems, Inc. (a) | 3,746,931 | |
| | | | <u>13,809,069</u> | 10.40% |
| Title Insurance | 179,800 | First American Corp. | 2,798,137 | 2.11% |
| | | Total Common Stocks (Cost \$105,850,881) | <u>108,478,235</u> | |



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

| | Notional Principal (\$) | Issues | Value | % of Net Assets |
|---|----------------------------------|---|---------------------------|--------------------|
| Foreign Currency Swap Contracts - (0.07%) | | | | |
| | 6,000,000 | Bear Stearns Currency Swap, Termination Date 2/28/01 (d) (e) | \$ (92,732) | (0.07%) |
| | | Total Other Investments (Cost \$0) | <u>(92,732)</u> | |
| | Principal Amount (\$) | | | |
| Short Term Investments - 12.00% | | | | |
| Repurchase Agreements | 12,525,347 | Bear Stearns 6.57%, due 8/1/00 (f) | <u>12,525,347</u> | 9.44% |
| Repurchase Agreements - Collateral on Securities Loaned | 8,650 3,392,100 | Bear Stearns 3.34%, due 8/1/00 (g) Bear Stearns 6.81%, due 8/1/00 (g) | 8,650 <u>3,392,100</u> | |
| | | | <u>3,400,750</u> | 2.56% |
| | | Total Short Term Investments (Cost \$15,926,097) | <u>15,926,097</u> | |
| | | Total Investment Portfolio - 93.65% (Cost \$121,776,978) | <u>124,311,600</u> | |
| | | Other Assets | | |
| | | Less Liabilities - 6.35% | <u>8,426,938</u> | |
| | | NET ASSETS - 100.00% (Applicable to 10,009,958 shares outstanding) | <u>\$132,738,538</u> | |
| | | NET ASSET VALUE PER SHARE | <u>\$13.26</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) The Fund is selling 667 million Yen and paying an interest rate of 0.25% in exchange for 6 million U.S. Dollars and an interest rate of 6.73%.
 - (f) Repurchase agreement collateralized by:
U.S. Treasury Strips, par value \$34,215,000, matures 11/15/16, market value \$12,777,250.
 - (g) Repurchase agreement collateralized by:
U.S. Treasury Strips, par value \$25,000, matures 11/15/16, market value \$9,336.
U.S. Treasury Strips, par value \$9,270,000, matures 11/15/16, market value \$3,461,789.
- ADR: American Depository Receipt.



Third Avenue Real Estate Value Fund

Dear Fellow Shareholders:

At July 31, 2000, the end of the third fiscal quarter of 2000, the unaudited net asset value attributable to the 1,580,442 shares outstanding of the Third Avenue Real Estate Value Fund (the "Fund") was \$13.05 per share. This compares with an unaudited net asset value of \$12.07 per share at April 30, 2000, and an unaudited net asset value, adjusted for a subsequent distribution to shareholders, of \$11.43 per share at July 31, 1999. At August 25, 2000, the unaudited net asset value was \$13.53 per share.

QUARTERLY ACTIVITY

During the quarter, the Fund established new positions in the senior notes of two companies, the senior subordinated notes of one company and the common stock of three companies. The Fund increased its position in the common stocks of eight companies, reduced its position in the common stock of one company, and eliminated its position in the common stock of one company as a result of a resource conversion.

Principal Amount or

Number of shares

\$750,000

\$300,600

\$700,000

21,928 shares

39,100 shares

13,000 shares

10,400 shares

3,500 shares

43,100 shares

8,000 shares

7,500 shares

22,600 shares

18,200 shares

26,200 shares

25,000 shares

14,700 shares

Position Acquired

Ocwen Asset Investment Corp., 11.50% Senior Notes due 7/1/05 ("Ocwen Notes")

Frank's Nursery & Crafts, Inc., 10.25% Senior Subordinated Notes due 3/1/08 ("Frank's Notes")

Rockefeller Center Properties, Inc. Zero Coupon Convertible Debentures due 12/31/00 ("Rockefeller Notes")

Lennar Corp. Common Stock ("Lennar Common")

Tejon Ranch Co. Common Stock ("Tejon Common")

USG Corp. Common Stock ("USG Common")

Increases in Existing Positions

Avatar Holdings, Inc. Common Stock ("Avatar Common")

Centex Corp. Common Stock ("Centex Common")

Commercial Assets, Inc. Common Stock ("Commercial Common")

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

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

LNR Property Corp. Common Stock ("LNR Common")

The St. Joe Co. Common Stock ("St. Joe Common")

Wellsford Real Properties, Inc. Common Stock ("Wellsford Common")

Positions Decreased

United Investors Realty Trust Common Stock ("United Common")

Positions Eliminated

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



Ocwen Asset Investment Corp. was formerly a publicly traded real estate investment trust that invested in variety of real estate assets, including subordinate and interest-only interests in mortgage-backed securities; distressed commercial and multifamily properties; and mortgage loans on commercial, multifamily and residential properties. In October 1999, through a merger approved by shareholders, the company became a wholly owned subsidiary of Ocwen Financial Corp. Ocwen Notes are senior unsecured obligations of the company and cross-defaulted with the obligations of the parent company. The company has liquidated a substantial portion of its mortgage-backed securities portfolio and paid down debt with the proceeds. The majority of the company's remaining assets consist of a portfolio of office and retail properties, most of which are listed for sale. We think there is a good chance the company will use the sale proceeds to make a tender offer on the Ocwen Notes at a discount to face value — but at a substantial premium to the Fund's cost basis. The Fund acquired Ocwen Notes at yield-to-maturity of about 18%, which appears to be our downside based on the substantial asset coverage.

Frank's Nursery & Crafts operates the largest chain of specialty retail stores in the United States devoted to the sale of lawn and garden products. The company also sells dried and artificial flowers, crafts and seasonal merchandise. The company has 257 stores, 118 of which are leased and 139 are owned. The typical store is generally located on a 3-acre site, has approximately 18,000 square feet of indoor building area, 17,000 square feet of outdoor selling area and ample onsite parking. Most stores are freestanding and located adjacent to or near shopping centers. The company has recently experienced declining sales and margins, which it attributes to the unseasonably wet and cold weather in the Northeast and Midwest. Weak operating results has caused the company to be out of compliance with covenants under its credit facility. The company was able to obtain an amendment to the credit facility, but the amendment reduces the company's financial flexibility. We recently visited a number of the company's Northeast stores and observed that the stores are well stocked with quality merchandise and well staffed with knowledgeable personnel. Despite competition from Home Depot and others, Frank's appears to have a viable business. The obvious problem is the company's ability to comfortably service its debt. The Fund acquired Frank's Notes at a substantial discount to par and a yield to maturity of more than 30%. If the company is able to turn around its operations, we will have a performing instrument with a very attractive yield. If the company defaults on the notes and files for bankruptcy protection, we would expect to participate in a reorganization and receive substantial equity in the reorganized company. Our backstop is the value of the real estate, which we estimate in liquidation would return substantially more than our cost basis.

Rockefeller Notes are an obligation of RCPI Trust, which owns Rockefeller Center, one of the best-known commercial real estate complexes in the world. The property includes 12 buildings having approximately 7.4 million square feet of rentable office, retail, storage and studio space (including approximately 1.5 million square feet owned by NBC). The Rockefeller Notes have a zero coupon and accrete to par on the maturity date, December 31, 2000. Upon maturity, the notes will convert to floating rate notes bearing interest at 1% over 90-day LIBOR, with quarterly interest payments, then maturing on December 31, 2007. The total outstanding face amount of the Rockefeller Notes is \$586.2 million. Rockefeller Center is reportedly for sale with an asking price of about \$2 billion. With such a large equity cushion, we view the Rockefeller Notes as having extremely low credit risk. At our acquisition cost, we have locked in about a 10% yield to maturity (assuming no change in interest rates) and we think there is a good chance the notes will be paid off upon a sale of the property. In this event, our annualized yield would be substantially higher.



The Fund received Lennar Common in exchange for its position in U.S. Home Common, which we acquired earlier this year. Lennar Corp. completed its acquisition of U.S. Home Corp. in May 2000 by issuing a combination of cash and new common shares. The combined company is now the largest publicly traded homebuilder in the United States with major market shares in California, Texas and Florida and homebuilding operations in 10 additional states. Lennar builds homes for first-time buyers, move-up buyers and active adults. Lennar has an exceptionally strong balance sheet and one of the best management teams in the homebuilding business. The Fund's effective acquisition cost of Lennar Common was at a discount to book value and a P/E ratio of less than 6 times trailing earnings. Over the last 5 years, Lennar Common has traded at an average of 2.1 times book value and 11.3 times earnings; and peaking at 4 times book value and 20 times earnings. It appears to us that the market has overreacted to fears of a slowdown as a result of higher interest rates. The company's financial strength should enable it to not only withstand any downturn in housing, but also increase market share during such periods.

Tejon Ranch Corp. is the largest contiguous landowner in California with approximately 270,000 acres located in Los Angeles and Kern Counties. Historically, the company has specialized in livestock, farming and natural resource management. In 1996, the company brought in new management with a mandate to create and implement a strategic plan of developing its land along transportation corridors into master planned business and residential communities. The first development, Tejon Industrial Complex—located along Interstate 5 on the north end of the property—is underway and appears to be attracting significant interest from major users like Ikea, which has recently agreed to purchase an 80-acre site on which it will build a 1.8 million square foot distribution center. On the south end of the property, in Los Angeles County, the company has entered into a joint venture with three of California's largest homebuilders for the planning and development of a master planned community encompassing over 4,000 acres. The development process in California can take several years from planning phase to construction phase, but I am impressed with what management has been able to accomplish to date. Additionally, after visiting the property, I am encouraged that the location and character of the land will lend itself to successful long-term developments. The Fund's investment in Tejon Common was made at a significant discount to our conservative estimate of the net present value of future cash flows from developments.

USG Corp. is the largest manufacturer and supplier of gypsum wallboard (SHEETROCK brand) in the United States and, through its L&W Supply subsidiary, the leading specialty building products distributor in the United States. The company also produces ceiling tiles, joint compounds and other building products. USG Common has been depressed for the last year, primarily due to a combination of softening demand and growing industry capacity putting downward pressure on wallboard prices. Additionally, recent interest rate increases are expected to have a negative effect on the homebuilding industry, further reducing demand. USG has a very strong balance sheet and quality management and is the lowest cost producer of wallboard in the United States. With its financial flexibility, USG should be able to manage its operations to maintain profitability even during a severe recession. Recent prices for USG Common seem to reflect a worst-case scenario. While the near-term outlook may not be terrific for the company or the industry, USG's long-term earnings power looks very attractive. The company is a defendant in asbestos lawsuits alleging both property damage and personal injury. The company's ultimate liability may not be known for several years, but based on the number of claims filed and settlements to date, we don't expect that it will be a show stopper. USG Common prices seem to reflect the potential downside from the asbestos litigation.



INVESTING IN DEBT SECURITIES OF DISTRESSED COMPANIES

It should be obvious by now that the Fund is not your typical mutual fund that invests exclusively in REIT common stocks. At the end of the quarter, the Fund had approximately 9.4% of its net assets invested in debt securities of companies, most of which we (or others, mistakenly) would consider distressed. When investing in distressed securities, we invest in the most senior portion of the capital structure that we expect will participate in the reorganization of the company (in most cases receive equity in exchange for debt). We protect our downside by buying cheap enough so that in the event reorganization is not feasible, liquidation of the company's assets (primarily real estate) will, in our estimation, still return a substantial profit. We evaluate each investment in debt securities first by estimating the liquidation value of the real estate, and then we determine if the company is viable. For example, our investment in Frank's Notes was based on our determination that the company owned valuable real estate in good locations. The Fund has little interest in investing in a nursery retailer (or any retailer for that matter) unless its real estate assets alone can support our investment. To the extent a distressed company is able to reorganize, we may be able to enhance our return by receiving either equity or a performing loan.

RESOURCE CONVERSION UPDATE

Since its inception in September 1998, the Fund has been the beneficiary of a number of resource conversions. Mortgage REITs have been the most active area in which we purchased undervalued common stocks of companies that were ripe for conversion (e.g., Imperial Credit Commercial Mortgage Investment Corp., Chastain Capital and AMRESKO Capital Trust). We have also had a couple of very profitable conversions in non-REITs (e.g., Echelon International and U.S. Home). However, we expected that several of our investments in the common stocks of small-cap equity REITs (REITs which own properties as opposed to mortgages) would also have been converted by now. Our theory was that these REITs, trading at 30% to 40% discounts to net asset value, would be targeted for consolidation by private funds looking for bargains, or they would go through orderly liquidations. Unfortunately (or fortunately, depending on your perspective), managements were reluctant to sell at a discount to net asset value and very few deals got done.

Since the beginning of the year, common stocks of larger REITs have appreciated substantially more than small-cap REITs. Through July 31, 2000, the Bloomberg REIT index is up 24.7% versus 16.3% for the Bloomberg Small-Cap REIT index. Many larger REITs' common stocks now trade at or above net asset value. This means that, once again, REITs will consider issuing new common stock in the public market. Alternatively, REITs can issue common stock as currency for acquisitions of properties, portfolios or other REITs. Small-cap REITs with quality real estate portfolios like Aegis Realty, Prime Group Realty Trust and Koger Equity now appear to be prime candidates for stock-for-stock acquisitions. Acquirers should be motivated to pay a fair price, which would close the gap between current stock prices and net asset value. The wild card in this theory is always management and whether they are more motivated to realize shareholder value or keep their jobs.

Despite the lack of resource conversions in our portfolio of small-cap REITs, since its inception, the Fund has returned 35.45% through July 31, 2000 and 40.43% through August 25, 2000. Furthermore, it is apparent that the market is



still significantly undervaluing many of the Fund's investments. If each Fund holding were priced at our estimate of net asset value, the Fund's net asset value would increase by 30% to 40%.

I look forward to writing to you again when we publish our annual report for the fiscal year ending October 31, 2000.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael H. Winer". The signature is fluid and cursive, with a prominent initial "M".

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



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

| | Principal Amount (\$) | Issues | Value | % of Net Assets |
|------------------------------------|--|---|--|--------------------|
| Convertible Bonds - 3.19% | | | | |
| Assisted Living Facilities | 1,000,000 | CareMatrix Corp. 6.25%, due 8/15/04 | \$247,500 | 1.20% |
| Financial Services | 3,500,000 | ContiFinancial Corp. 8.38%, due 8/15/03 | 411,250 | 1.99% |
| | | Total Convertible Bonds (Cost \$647,715) | <u>658,750</u> | |
| Corporate Bonds - 6.21% | | | | |
| Lawn and Garden Retail | 300,600 | Frank's Nursery & Crafts, Inc. 10.25%, due 3/1/08 | 111,222 | 0.54% |
| Real Estate Operating Companies | 750,000 700,000 | Ocwen Asset Investment Corp. 11.50%, due 7/1/05 Rockefeller Center Property Trust 0.00% due 12/31/00 | 577,500 <u>591,500</u> | |
| | | Total Convertible Bonds (Cost \$1,321,841) | <u>1,169,000</u> <u>1,280,222</u> | 5.67% |
| | Shares | | | |
| Common Stocks - 84.68% | | | | |
| Building Materials | 13,000 | USG Corp. | 381,875 | 1.85% |
| Home Building | 24,500 55,200 21,928 | Centex Corp. D.R. Horton, Inc. Lennar Corp. | 586,469 855,600 526,272 | |
| | | | <u>1,968,341</u> | 9.54% |
| Natural Resources | 11,500 4,000 | Deltic Timber Corp. The TimberWest Forest Corp. (Canada) | 237,906 26,923 | |
| | | | <u>264,829</u> | 1.28% |
| Real Estate Operating Companies | 61,100 99,000 29,900 30,700 63,300 39,100 | Avatar Holdings, Inc. (a) (b) Catellus Development Corp. (a) Consolidated-Tomoka Land Co. (b) Forest City Enterprises, Inc. Class A (b) LNR Property Corp. Tejon Ranch Co. (a) | 1,283,100 1,707,750 362,538 1,055,313 1,285,781 945,731 | |



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

| | Shares | Issues | Value | % of Net Assets |
|---|----------------------------------|--|-------------------|--------------------|
| Common Stocks (continued) | | | | |
| Real Estate Operating Companies (continued) | 46,700 | The St. Joe Co. (b) | \$ 1,389,325 | |
| | 56,550 | Wellsford Real Properties, Inc. (a) | 926,006 | |
| | | | <u>8,955,544</u> | 43.42% |
| Real Estate Holding Company | 25,500 | Security Capital Group, Inc. Class B (a) (b) | 457,406 | 2.22% |
| Real Estate Investment Trust | 52,300 | Aegis Realty, Inc. | 523,000 | |
| | 69,000 | AMRESKO Capital Trust Inc. | 711,562 | |
| | 75,500 | Anthracite Capital, Inc. | 528,500 | |
| | 40,200 | Captec Net Lease Realty, Inc. | 442,200 | |
| | 150,700 | Commercial Assets, Inc. | 772,338 | |
| | 22,000 | Koger Equity, Inc. | 372,625 | |
| | 60,800 | Prime Group Realty Trust | 946,200 | |
| | 107,700 | United Investors Realty Trust | 582,253 | |
| | | | <u>4,878,678</u> | 23.65% |
| Title Insurance | 36,000 | First American Corp. | 560,250 | 2.72% |
| | | Total Common Stocks (Cost \$15,317,022) | <u>17,466,923</u> | |
| | Principal Amount (\$) | | | |
| Short Term Investments - 5.97% | | | | |
| Repurchase Agreements | 988,869 | Bear Stearns 6.57%, due 8/1/00 (c) | 988,869 | 4.80% |
| Repurchase Agreements - Collateral on Securities Loaned | 7,427 | Bear Stearns 3.34%, due 8/1/00 (d) | 7,427 | |
| | 234,400 | Bear Stearns 6.81%, due 8/1/00 (d) | 234,400 | |
| | | | <u>241,827</u> | 1.17% |
| | | Total Short Term Investments (Cost \$1,230,696) | <u>1,230,696</u> | |
| | | Total Investment Portfolio - 100.05% (Cost \$18,517,274) | <u>20,636,591</u> | |
| | | Liabilities Net of Cash and Other Assets - (0.05%) | <u>(9,767)</u> | |



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

Value

| | |
|--|---------------------|
| NET ASSETS - 100.00% (Applicable to 1,580,442 shares outstanding) | <u>\$20,626,824</u> |
| NET ASSET VALUE PER SHARE | <u>\$13.05</u> |

Notes:

- (a) Non-income producing securities.
- (b) Securities in whole or in part on loan.
- (c) Repurchase agreements collateralized by:
U.S. Treasury Strips, par value \$2,705,000, matures 11/15/16, market value \$1,010,155.
- (d) Repurchase agreements collateralized by:
U.S. Treasury Strips, par value \$25,000, matures 11/15/16, market value \$9,336.
U.S. Treasury Strips, par value \$645,000, matures 11/15/16, market value \$240,869.

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Investment Adviser

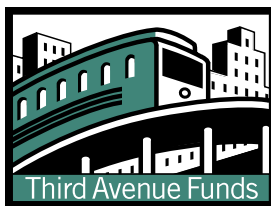
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