Third Avenue Funds

THIRD AVENUE VALUE FUND

THIRD AVENUE SMALL-CAP VALUE FUND

THIRD AVENUE REAL ESTATE VALUE FUND

THIRD AVENUE INTERNATIONAL VALUE FUND

THIRD QUARTER REPORT

(Unaudited)

July 31, 2002

Third Avenue Value Fund

Dear Fellow Shareholders:

At July 31, 2002, the unaudited net asset value attributable to the 74,569,422 common shares outstanding of the Third Avenue Value Fund ("TAVF", "Third Avenue" or "The Fund") was $31.74 per share. This compares with an unaudited net asset value of $38.38 per share at April 30, 2002 and an unaudited net asset value of $36.91 per share at July 31, 2001, adjusted for a subsequent distribution. At September 10, 2002, the unaudited net asset value was $31.02 per share.

The 17.3% decline in per share value during the latest quarter is probably the poorest performance ever experienced by the Fund, or its predecessor, for any three-month interim period. This poor performance seems attributable almost solely to the current vicious bear market, which has resulted in price reductions for almost all publicly traded securities other than investment grade, near-cash credit instruments, or the common stocks of certain gold mining companies. I feel good that the TAVF common stock portfolio continues to consist almost wholly of issues of companies that are extremely well-financed. These issues seem to have been acquired at attractive prices based on long-term outlooks. Most of the common stocks now seem to be available at much more attractive prices than was the case three months ago. None of the companies in whose securities the Fund has material investments seem to have suffered permanent impairments during this period of poor performance. Prices are now so low that many companies in the portfolio might seek to go private in the months ahead, in whole or in part, financing transactions largely with the businesses' surplus cash. Candidates could include AVX, Comverse, Energizer, Instinet, KEMET, Mestek, Standex, SWS Group, Toyota Industries, and Vishay.

Further, about 11% of TAVF's assets were invested in distressed credits, not common stocks, at the end of the quarter. The Fund is one of the few vehicles available for such investments without having to pay substantial promotes to hedge fund operators. In my letter for the Annual Report for the year to end October 31, 2002, it is my intention to discuss distress investing at some length so that Fund shareholders, hopefully, can gain a good understanding of what this field consists of—including both its warts and its unusual profit potentials. This "Introduction To Distress Investing" has been put aside in this report in order to discuss two very hot current topics: accounting disclosures and management conflicts with Outside Passive Minority Investors ("OPMIs"), such as the Fund.

QUARTERLY ACTIVITY

During the quarter, new positions were established in ten companies, five of which were the senior debt instruments of troubled, or allegedly troubled, companies, and five of which were common stocks. The Fund added to its senior creditor position in one issuer, Kmart, and also increased its holdings in ten different common stock issues. Two common stock positions were reduced.

Principal Amount or Number of Shares	New Positions Acquired
$33,875,000	CIT Group Senior Bonds (“CIT Credits”)
$3,650,000	Illinois Power First Mortgage Bonds (“Illinois Power Firsts”)
$3,300,000	Qwest Corporation Senior Bonds (“Qwest Seniors”)
$40,000,000	Qwest International Senior Debt (“Qwest International Seniors”)
$269,016,000	WorldCom Senior Bonds (“WorldCom Seniors”)
3,000,000 shares	Aquila, Inc. Common Stock (“Aquila Common”)
500,000 shares	Brookline Bancorp, Inc. Common Stock (“Brookline Common”)
2,000,000 shares	CIENA Corp. Common Stock (“CIENA Common”)
1,250,000 shares	Comverse Technology, Inc. Common Stock (“Comverse Common”)
4,493,100 shares	Quanta Services, Inc. Common Stock (“Quanta Common”)
	Increases in Existing Positions
$15,562,449	Kmart Senior Notes & Trade Claims (“Kmart Seniors”)
92,100 shares	Alexander & Baldwin, Inc. Common Stock (“Alexander & Baldwin Common”)
236,900 shares	American Power Conversion Corp. Common Stock (“American Power Common”)
100,000 shares	Applied Materials, Inc. Common Stock (“Applied Materials Common”)
507,902 shares	Danielson Holding Corp. Common Stock (“DHC Common”)

Number of Shares	Increases in Existing Positions (continued)
500,000 shares	Hutchison Whampoa Ltd. Common Stock (“Hutchison Whampoa Common”)
1,339,500 shares	Instinet Group, Inc. Common Stock (“Instinet Common”)
250,800 shares	Investor AB Class A Common Stock (“Investor Common”)
909,000 shares	The St. Joe Company Common Stock (“St. Joe Common”)
1,008,200 shares	Tellabs, Inc. Common Stock (“Tellabs Common”)
200,000 shares	Toyota Industries Corp. Common Stock (“Toyota Common”)
	Reductions in Existing Positions
4,000,000 shares	Innovative Clinical Solutions, Ltd. Common Stock (“ICSL Common”)
202,600 shares	Investment Technology Group, Inc. Common Stock (“ITG Common”)

Distress investing by the Fund is of three types. First, TAVF invests in high yield securities—those with yields to maturity of between 15% and 27%—where Fund management is convinced the issuer will never miss an interest payment on the particular instrument whether or not the issuer seeks Chapter 11 relief; or where the credit instrument will be reinstated during, or after, a Chapter 11 reorganization. CIT Credits, Illinois Power Firsts and Qwest Seniors fit into this category. These issues afford not only a high current yield but also appreciation potential based on a “yield to an improved credit rating”. (This has already occurred for the CIT Credits). Second, TAVF invests in high yield issues, such as Qwest International Seniors, where Fund management is unsure whether the credit issue will be a performing loan or will participate in a reorganization, either out-of-court or in Chapter 11. In either event, we expect Third Avenue to fare okay either receiving a high return, i.e., a yield to maturity of around 25%, or new securities of a reorganized company with a feasible capitalization. Third, the Fund invests in senior securities of companies in Chapter 11, e.g., WorldCom and Kmart, where the Fund expects, upon reorganization, to receive major common stock interests in businesses which will then have feasible capitalizations and rational operations. TAVF was blind-sided by the WorldCom accounting fraud, an event that Fund management never foresaw. Yet Third Avenue’s all-in-cost for its WorldCom position is around 20¢ per dollar of claim. There seem to be strong probabilities that the WorldCom investment will become a profitable one, the accounting fraud notwithstanding. Investing in distressed seniors is quite different than investing in distressed common stocks. It seems a near certainty that holders of WorldCom Common will be wiped out.

Aquila Common and Quanta Common are aberrations for TAVF in that both companies seem to have barely adequate, though good enough, capitalizations, rather than the extremely strong financial positions that characterize most of the other companies whose common stocks are owned by the Fund. However, despite current difficulties stemming from Enron, Dynegy and the California electricity crisis, the long-term growth in demand for electric power and natural gas ought to continue unabated, something that has been an annual occurrence since the 1930s. Quanta, which provides contract maintenance and construction services to the electric power, natural gas, telecommunications and cable industries, is doing poorly currently. Aquila management seems to have made a number of major missteps in recent years, albeit its recent timing in accessing capital markets seems to have been exquisite. The basic growth trends for Aquila and Quanta seem quite strong. The Fund acquired its position in Quanta at about 1.5 times peak earnings and in Aquila at 3.3 times peak earnings. Either could become a "five bagger" or "seven bagger." The Fund's usual mantra for common stock investing is "safe and cheap." I'd characterize Aquila Common and Quanta Common as very, very cheap but far from 100% safe.

Over the years, the Fund has done extremely well buying into the common stocks of extremely strongly capitalized regional or community banks when the issues were priced at discounts from adjusted book value. Brookline Common qualifies on these counts. TAVF continues to expand its position in cash rich telecom equipment suppliers. Acquisitions during the quarter were CIENA Common, Comverse Common and Tellabs Common.

In investing in semiconductor equipment common stocks, which the Fund started to do in 1996, TAVF bought into a diversified portfolio of cash rich equipment makers. Going forward though, it appears as if the Fund will do better by concentrating on just one or two or three of the industry giants, albeit many of the smaller, niche providers are still likely to do all right. This is likely to be what the Fund does in the future. Applied Materials is the industry leader. The Fund also expanded its position modestly in American Power Common, a niche leader in electronic gear. Electronics has become more and more important in all aspects of Wall Street securities trading. During the quarter, TAVF did a swap in the electronics trading area—selling ITG Common and buying Instinet Common. The reason revolved around the huge price differential between the two issues.

The single favorite investment approach for TAVF is to acquire common stocks of issuers where the common is selling at a discount from readily ascertainable Net Asset Value ("NAV") and where the companies are very well financed, as long as there appear to be reasonable prospects that NAV will continue to grow over the long-term. Issues filling this bill which were acquired during the quarter were Alexander & Baldwin Common, Hutchison Whampoa Common, Investor AB Common, St. Joe Common and Toyota Industries Common.

During the quarter, Danielson Holding ("DHC") closed on the granddaddy of all Leveraged Buy-Outs ("LBOs")—the acquisition of American Commercial Lines ("ACL"), the largest barge operator on the U.S. inland waterways and also a major factor in South America. The Fund participated in a rights offering to help finance the ACL acquisition. While no ACL debt is recourse to DHC, the consolidated company is extremely leveraged. Aquila and Quanta, frankly, have super strong balance sheets compared with DHC. However, if ACL turns profitable, the rewards to DHC shareholders ought to be huge.

The investment in ICSL has been virtually a total wipeout for TAVF. During the quarter, the Fund realized a tax loss on the sale of 4,000,000 shares of ICSL Common.

INCREASINGLY, THE INMATES SEEM TO BE RUNNING THE INSANE ASYLUM

Washington politicians, corporate executives and securities analysts at times seem to be driven by a herd mentality. They frequently seem to be lemmings. Look at the dot com bubble before it burst in early 2000. Look at the extremely ill-advised "airline bailout" approved almost unanimously and in a hurry by Congress in the fall of 2001. That wasn't an airline bailout; it was a temporary bailout of airline creditors. Look at the current stampede by corporate executives to account for stock options as a corporate expense. Stock options are not, in the vast majority of instances, a corporate expense; they are a stockholder expense. In my view, the most egregious malpractice of the herd today is to have everyone dump on public accountants. The vast majority of problems with financial accounting today have nothing to do with the preparers of financial statements, the public accountants. Rather, the problems lie with the users of financial statements, equity analysts appraising publicly traded securities, who have little or no willingness or ability to use appropriately the vast amount of information imparted to them by financial statements prepared in accordance with Generally Accepted Accounting Principles ("GAAP"). These analysts, and their cohorts in the media, in the Plaintiffs' Bar and in the political arena, are the inmates who, increasingly, are determining what financial disclosures ought to be. They, indeed, seem to be running the insane asylum.

It ought to be instructive to TAVF shareholders to compare how Third Avenue uses accounting disclosures with how the great majority of securities analysts in research departments use accounting disclosures. While the TAVF approach may appear to be aberrational compared with Wall Street convention and with the precepts that make up almost all of the academic literature, the Third Avenue approach seems to me to be the majority, mainstream approach in the U.S. economy. The TAVF approach is the same as that followed by private companies not seeking access to public markets for equities; businessmen seeking favorable tax attributes so that they can create wealth on a tax-sheltered basis; most creditors; and all investors who seek in the management of their own portfolios to maximize total return rather than just invest for interest income and dividend income. Interest income and dividend income in investor portfolios is the precise equivalent of revenue from recurring operations for going concern corporations.

HOW THIRD AVENUE USES ACCOUNTING DISCLOSURES

The TAVF objectives are to ascertain what a business and its securities might really be worth to a control buyer, and what the range of dynamics might be for the corporation over the long term. Short-term considerations are always ignored with the exception of risk arbitrage situations. Risk arbitrage situations exist only where there are relatively determinate workouts in relatively determinate periods of time, e.g., when there is an announced corporate merger.

Managements are appraised looking at three interrelated factors. Managements are appraised as operators of going-concerns; as investors employing and redeploying the assets of a business; and as financiers obtaining the necessary capital to conduct company activities. Of the three interrelated activities, appraising management as investors, not as operators, is probably the most important single factor in a Fund analysis. A majority of the TAVF common stock investments are in companies acquired at substantial discounts from Fund management's estimates of NAV, where Fund management believes that prospects are good that NAV will be steadily increased over the long term. In many instances, those increases in NAV will come from places such as enhanced land values or securities market price appreciation rather than going concern income from operations. At July 31, 2002, common stock investments in NAV driven (rather than earnings driven) companies accounted for 54% of the Fund's common stock portfolio. Principal industry groups containing NAV companies were real estate, insurance, depository institutions, business development and Japanese issuers whose principal assets were portfolios of marketable securities.

In appraising managements as investors, there is no such thing as non-recurring charges or expenses. Non-recurring charges are the method used in GAAP accounting to record past investment mistakes.

In a TAVF appraisal, no one accounting number is ever all-important. Rather it is realized that every accounting number is derived from, modified by, and a function of, all the other numbers that comprise the accounting cycle. Most analyses are complicated, and different numbers—operating income, cash flow from operations, comprehensive income, book value, revenues, inventory turnover, capitalization ratios, returns on equity—are given different weights dependent on context.

In a TAVF analysis, one size never fits all. Depository institutions are analyzed differently than high tech companies, which are analyzed differently than real estate companies, and distress credits seem, in great part, to be off into a different world.

What is expected of GAAP accounting in a TAVF analysis is that it provide to the analyst objective benchmarks, which the analyst can then use to determine truth and accuracy. As a matter of fact, GAAP is usually the only source of numerical objective benchmarks for the analyst. Outside of mark-to-market accounting for investment companies, it is utterly ludicrous to expect GAAP to reflect truth and accuracy for all contexts. Like the Internal Revenue Code, GAAP is based on a relatively rigid set of unrealistic assumptions—e.g., depreciation of property, plant and equipment is based on historic cost; and most debt obligations of a company are carried at the face amount of the debt obligation rather than marked to current market. Any system of accounting has to have shortcomings that cause it to be unrealistic in one, or more, contexts. Cash accounting has shortcomings in that it fails to reflect a company's accrual, or wealth creation, experience during a period. Accrual accounting has shortcomings in that it fails to reflect a company's cash experience during a period. Nonetheless, both cash accounting and accrual accounting are important. As a general rule, the common stock analyst might want to give overriding weight to cash accounting for companies whose financial positions are quite weak, while emphasizing accrual accounting for companies sitting with huge amounts of surplus cash.

A TAVF analysis focuses on what the numbers **mean** rather than what the numbers **are**. Disclosure is what counts, not how things are disclosed, e.g., in the case of stock options, it is important that the term of options be disclosed in footnotes to GAAP audits. It is not important that the value of options (no matter how inaccurately value is determined) be deducted from accounting net income. Knowing the details of an item such as stock options enables the TAVF analyst to either adjust financial statements, adjust the price the analyst might be willing to pay for a security, or both.

For TAVF, financial disclosures have never been more comprehensive, more meaningful and more useful than is currently the case. This remains true even though, in general, accounting fraud à la WorldCom seems to have increased materially in recent years. Given the Fund's *modus operandi* though, where few common stocks are acquired if the company does not enjoy an extremely strong position, it seems to me that the Fund remains far less likely in its common stock portfolio to be victimized by accounting frauds than will be conventional equity analysts.

GAAP accounting by Toyota Industries and GAAP accounting for debt on the balance sheets serve as two examples of how GAAP provides the Third Avenue analyst with objective benchmarks and how the Third Avenue analyst uses those objective benchmarks to get at his or her version of truth and accuracy.

Assuming that Toyota Industries' going concern operations are valued at 6 to 7 times operating income, the assets dedicated to these operations, after deducting all non-convertible funded debt, constitute between 8% and 12% of Toyota Industries' assets. 60% to 63% of assets are in Toyota Industries' holdings of Toyota Motor Common Stock valued at market, and 28% to 29% of assets are in the market value of common stocks of other companies, most of which, like Toyota Industries, are also affiliates of Toyota Motor. In reporting earnings in accordance with GAAP, Toyota Industries includes in its earnings only dividends received from portfolio companies. Looked at this way, Toyota Industries Common is selling at around 21 times latest 12-month earnings. However, if Toyota Industries' income account is adjusted to pick up, as additional earnings, the Company's equity in the undistributed earnings (i.e., earnings not paid out as dividends) of Toyota Motor and the other portfolio companies, then Toyota Industries Common is selling at only 8.5 times latest 12-month earnings. Which is the more realistic reflection of Toyota Industries' performance—as reported under GAAP, or as adjusted to reflect the equity in the retained earnings of business affiliates? I would think that the adjusted earnings figure probably is more realistic, but this is far from certain. Were I the CEO or CFO of Toyota Industries and was I asked to swear that the earnings as reported were true and accurate, I might decline to sign. However, it is doubtful that including the equity in the undistributed earnings of affiliates is 100% accurate either. Toyota Industries has no control over the uses to which these undistributed earnings might be put. Here, truth lies in the analyst's interpretation of results, not in GAAP reports. Under GAAP, the presumption is that the undistributed earnings of affiliates would be included in earnings if Toyota Industries owned 20% or more of the outstanding common stock of the affiliate. 20% is a relatively rigid rule, which does not necessarily describe economic reality. The Third Avenue analyst, though, really does not have to make a decision about which of the two ways to report earnings is really proper. He or she need only decide at which price, if any, the analyst would recommend buying Toyota Industries Common. In fact, at TAVF we give much more weight to the fact that Toyota Industries Common sells at a 35%-40% discount from NAV than to the P:E ratios for Toyota Industries Common.

Whether debt obligations ought to be viewed as valued at the amount of claim, or at market prices, depends on who is doing the analysis and for what purposes. Regardless of the amount at which the debt obligation is carried on the company's balance sheet for GAAP purposes, if the company lacks the financial wherewithal to acquire debt obligations at discounts from the creditors' claims, then from the points of view of the corporation itself and its common stockholders, the debt ought to be valued at the amount of claim, i.e., principal amount plus accrued interest. In bankruptcy, there exists a "rule of absolute priority." Senior debt has to be paid in full under the rule before the corporation can give any value to junior securities, including the common stocks owned by OPMIs. On the other hand, from the point of view of a distressed bond buyer seeking to reorganize the company, the market price of the debt obligation (particularly as a percentage of claim) becomes the key number. However, what the key number really is has to be decided by the analyst, not the accountant preparing the numbers in accordance with GAAP. GAAP will follow a set of rigid rules about recording debt. The Third Avenue analyst will determine economic reality for his or her purposes.

HOW MOST CONVENTIONAL ANALYSTS SEEM TO USE ACCOUNTING DISCLOSURES

The conventional analyst's objectives seem to revolve around estimating what the market price for securities trading in an OPMI market will likely be in the weeks, months or years ahead. Put in conventional language, what is the target price?

Managements are appraised solely as operators of strict going-concerns. Thus, one number becomes all-important whether it is reported, recurring earnings from operations, cash flow from operations, revenues, or Earnings Per Share ("EPS") from normal recurring operations. Thus, there exists a primacy of the income account. Balance sheet considerations—both quantitative and qualitative—are denigrated.

One size tends to fit all. There tends to be one "magic" number which is the key to analyzing any company, whether that "magic" number is Discounted Cash Flow ("DCF"), EPS or Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA").

GAAP ought to reflect economic reality, i.e., give a true and accurate account of operating results for a period. What the numbers are becomes more important than what the numbers mean. Thus it becomes highly important that the value of options be reflected in reported net income, even if the details are contained in the footnotes.

This approach, combining a primacy of the income account plus reliance on numbers as reported without adjustment, seems the most appropriate approach insofar as the objective of an analysis is to predict what might happen to common stock prices in OPMI markets over the near term. Market players, most of the time, are focused on income numbers, not balance sheet numbers. Immediate market prices tend to react to earnings numbers as reported.

For the economy as a whole though, I think this current emphasis on reporting operating earnings accurately and truthfully is dangerous. First, there is no way reported numbers are going to really be truthful and accurate in all contexts no matter how many Chief Executive Officers and Chief Financial Officers so attest as they were required to do from August 14, 2002 forward. Setting the standards under which executives have to attest to the truth and accuracy of financial statements seems certain to give the Plaintiffs' Bar license to pursue frivolous lawsuits. Society is better served when the Plaintiffs' Bar is instead incentivized to take action against meaningful wrongdoing by corporate insiders, as for example the alleged stealing by the controlling shareholders of Adelphia Communications.

GAAP cannot be made to reflect economic reality. GAAP can only provide objective benchmarks. To try to get GAAP to be more than that results in making GAAP so complex that its usefulness for people trained to use it becomes impaired. The Internal Revenue Code has to be very complicated because it is designed not to reflect reality, but to determine one number, the taxpayer's tax bill. GAAP ought to be designed to give trained users objective benchmarks. This doesn't seem unduly complicated.

As I've stated in past letters, GAAP can be most useful insofar as it provides disclosure against the following background:

1. The Company should be viewed as a stand-alone, separate and apart from its common stockholders and management. In other words, it does not make a lot of sense to have what is a stockholder expense, stock options, reflected as a company expense.

2. The underlying assumption ought to be that the user of the financial statements will be a reasonably intelligent person who understands what the complete accounting cycle is.

3. GAAP financial statements ought to, first and foremost, fill the needs and desires of creditors, not short-run stock market speculators.

A PLAGUE UPON ALMOST ALL THEIR HOUSES

The shareholders of TAVF are Fund management's constituency. Therefore, it is important that Fund management look at things primarily from the point of view of that constituency—broadly speaking, OPMIs—while remaining cognizant of the points of view of other constituencies within the financial community.

It is apparent, to me at least, that there has been an inexorable trend in the last 10 or 15 years toward having OPMIs in particular, and corporations in general, increasingly ripped-off not only by corporate managements but also by the Plaintiffs' Bar, by Bankruptcy Attorneys, by Defense Attorneys and by Investment Bankers. (Please note that public accountants are specifically excluded from this list of underperformers and overreachers). Ameliorating the rip-off problem probably will require various reforms that go well beyond the recently enacted Sarbanes-Oxley Act of 2002. Sarbanes-Oxley is a good start. However, many of the most desirable reforms will be fiercely resisted by politically powerful constituencies, e.g., corporate executives. Many of these desirable reforms could result in adverse, unintended consequences, e.g., strengthening the Plaintiffs' Bar.

There seems to be an inherent conflict between Plaintiffs' lawyers, bankruptcy attorneys and investment bankers, on the one hand, and the clients these professionals are supposed to represent, on the other hand. Put bluntly, which comes first for these professionals, their fees or their clients' best interests? My observation is that many bankruptcy lawyers and many investment bankers not only tend to be hugely overcompensated, but also tend to prolong Chapter 11 cases unnecessarily in order to milk the estate for fees. For many plaintiffs' attorneys prosecuting securities class or derivative actions, most of which are settled out-of-court, it is fees first and fuller restitution to clients a distant second.

As far as the Bankruptcy Code is concerned, OPMIs would be well served if payments to professionals were returned to what existed before the passage of the Bankruptcy Reform Act of 1978. Pre the 1978 Act, lawyers and investment bankers were paid generally only at the end of a case, and only if they demonstrated to the court that they had made a "substantial contribution". Nowadays, it is pay-as-you-bill for the professionals, plus "success" fees. A principal reason for the 1978 change was the belief that highly qualified professionals would not take cases if they had to work for contingent fees. What utter nonsense. For better or worse, it is hard to find more competent professionals than plaintiffs' attorneys. All of them work for contingent fees.

Like it or not, the principal cop enforcing laws against corporate fraud and management excesses will continue to be the Plaintiffs' Bar. It won't be the Securities and Exchange Commission ("SEC"), State Attorneys General, or State "Blue Sky" Commissions. Sarbanes-Oxley gave minor breaks to attorneys suing on behalf of OPMIs. But resistance to expanding the powers available to the Plaintiffs' Bar probably will continue to be highly effective. For example, the New York Stock Exchange ("NYSE") on June 6, 2002 put out a booklet under the auspices of the NYSE's "Corporate Accountability and Listing Standards Committee" on recommendations to enhance corporate governance for the benefit of OPMIs. There the Committee states: “we wish to explicitly note—that we have rejected and that we strongly urge policy makers to avoid—repealing or weakening the Private Securities Litigation Reform Act”. There is, in my view, a good degree of merit to the Committee’s position but it ill becomes a group claiming to be working in the best interests of OPMIs to go out of its way to propose what is, in effect, protection for corporate insiders against OPMI lawsuits. It should be noted that there are considerable counter pressures, or trade-offs, so that the things done to protect OPMIs from overreaching by corporate insiders will continue to be limited, Sarbanes-Oxley and pronouncements by the Bush Administration notwithstanding. The underlying problem is that every financial and legal practice is not only subject to abuse, but will be abused. Stockholder lawsuits tend to result in abuse and seem to cause much waste. But look at the alternative. OPMIs are mostly raped in other western countries such as Germany and England where the minority stockholders lack access to the courts. See the terrific article on the front page of the August 16th issue of *The Wall Street Journal* entitled, “Toothless Watchdogs—Outside the U.S., Executives Face Little Legal Peril”.

I have very mixed feelings about contingency fee lawyers. From an OPMI point of view, those taking securities cases seem to do more good than harm, especially when one looks at the alternative, the so called “English System” where OPMIs are effectively denied access to judicial redress. Those contingency fee lawyers going after tobacco companies are my absolute heroes. My father, a heavy smoker, died of lung cancer at age 62. I hate contingent fee lawyers trying asbestos cases. They are a clear and present danger to Corporate America all the while the vast majority of their clients show no symptoms of any disease. Admittedly, TAVF is among the largest creditors of USG Corporation, an asbestos-tainted issuer.

In terms of corporate governance, management entrenchment, which has grown like wildfire in the past 20 years, is one area where there ought to be reforms. No one, but no one, is making any proposals that would make it easier for managements to be removed from office by stockholders. Instead, stockholder rights in this regard have been abdicated to Boards of Directors, almost all of who seem to be compliant management tools. Given that OPMI stock market prices change so capriciously, society is probably best served if a modicum of entrenchment in office exists. But as things exist now, whether for solvent companies or most issuers in Chapter 11, managements are either bullet-proofed in office, or are extremely well rewarded with severance parachutes if they leave office. In my view, OPMIs and society would be well served if the NYSE and NASD refused to list the common stocks of companies with overbearing provisions for management entrenchment. These provisions include “poison pills”, blank check preferreds, super voting common stocks, staggered elections for Boards of Directors, super majority voting provisions, preventing stockholders from convening special meetings, and having the company itself finance all of management’s expenditures where there is a contest for control. Relief, if any, on this score would have to come from Self Regulatory Organizations (“SROs”), the NYSE and NASD. Not much seems possible at the state level. The SEC has no jurisdiction over corporate governance. But don’t hold your breath waiting for reforms in the area of management entrenchment.

The problem of corporate governance, it ought to be noted though, is not a TAVF problem. Most of the managements of most of the companies in which TAVF has invested seem to be doing a magnificent job for which they are either fairly, or modestly, compensated. Only a few companies represented in the portfolio seem to be run by managements which are overcompensated, underperformers, do really stupid things from the stockholder point of view, or pay no more than minimal attention to the needs and desires of OPMIs. Portfolio companies on this negative list, in my opinion, include Aquila, Electroglas, Head Insurance, ICSL, Kmart, MONY Group and Toyota Industries. None of the managements seem so bad though that the Fund should be exiting its positions wholesale at these prices. The toughest thing we do at TAVF is appraising managements. Sometimes we are wrong.

Despite all my carping about how OPMIs in this country are being increasingly ripped-off by managements and professionals, the U.S. public and private markets still remain the fairest, best, most efficient, capital markets that have ever existed. This is especially true for the private placement credit markets where the quality of analysis tends to be much, much better than it is for public equity markets. Third Avenue ought to continue to be able to invest reasonably comfortably going forward, the growing amount of rip-offs of OPMIs notwithstanding.

Along these lines, the eminent economist, Lester Thurow, had an Op-Ed piece in *The New York Times* during the quarter. The title of the Op-Ed article said it all—"Government Can't Make The Market Fair." I agree. The solution to this problem for OPMIs is to buy in at prices far, far lower than is usually available in negotiated transactions or in purchasing control. Buying in at such prices is exactly what TAVF tries to do.

On a separate note, as previously disclosed, Third Avenue Management, the investment adviser to Third Avenue Funds, agreed to sell a majority stake in the firm to Affiliated Managers Group, Inc. ("AMG"). This transaction was completed on August 8, 2002. We are pleased to join AMG's group of Affiliates. We reiterate that in no way does this transaction alter our "safe and cheap" investment philosophy. It does, though, enable us to address succession planning needs while allowing us to preserve the investment culture and autonomy of our firm. I love my work and I still plan on being actively involved in the daily activities of the Funds for as long as possible. In fact, I, as well as key members of the investment management team, have signed long-term employment contracts.

Finally, we are pleased to host our 5th annual Investor Conference in New York City on November 6th. The Conference allows shareholders to meet and hear firsthand from managements of several of our portfolio companies. We look forward to seeing many of you there.

I will write you again when the Annual Report for the year to end October 31, 2002 is published.

Sincerely yours,

Martin J. Whitman
Chairman of the Board

Third Avenue Trust
Third Avenue Value Fund
Portfolio of Investments
at July 31, 2002
(Unaudited)

	Principal Amount ($)	Issues	Value	% of Net Assets
Asset Backed Securities - 5.35%				
Government National Mortgage Association	9,733,444	GNMA 2001-40 VA 6.00%, due 04/20/08	$ 10,405,083	
	7,108,382	GNMA 1999-28 PL 6.50%, due 12/20/22	7,153,494	
	7,388,206	GNMA 1998-25 AB 6.00%, due 02/20/24	7,610,448	
	20,000,000	GNMA 2002-19 PA 5.50%, due 03/20/25	20,635,536	
	15,000,000	GNMA 2001-63 QB 5.00%, due 04/16/25	15,684,773	
	8,512,207	GNMA 2001-25 PA 5.50%, due 08/20/25	8,692,695	
	5,000,000	GNMA 2002-20 PK 5.50%, due 12/20/25	5,197,997	
	8,320,873	GNMA 2001-13 DK 5.80%, due 07/20/27	8,605,066	
	19,459,799	GNMA 2002-43 AB 6.00%, due 05/20/28	20,015,267	
	12,000,000	GNMA 2002-29 GA 6.00%, due 01/20/29	12,481,603	
	10,000,000	GNMA 2001-33 PA 5.50%, due 04/20/31	10,218,259	
			126,700,221	5.35%
		Total Asset Backed Securities (Cost $124,494,296)	126,700,221	
Bank and Other Debt - 0.68%				
Insurance Services Companies	6,912,869	Safelite Glass Term A Note (c)	6,636,355	
	9,297,279	Safelite Glass Term B Note (c)	8,925,388	
			15,561,743	0.66%
Oil Services	466,913	Cimarron Petroleum Corp. (c) (d)	486,139	0.02%
		Total Bank and Other Debt (Cost $12,452,810)	16,047,882	
Convertible Bonds and Equivalents - 0.22%				
Hotels & Motels	88,635,000	Lodgian, Inc. 7.00%, due 06/30/10 (a) (c)*	5,318,100	0.22%
		Total Convertible Bonds and Equivalents (Cost $19,019,225)	5,318,100	

Third Avenue Trust
Third Avenue Value Fund
Portfolio of Investments (continued)
at July 31, 2002
(Unaudited)

	Principal Amount ($)	Issues	Value	% of Net Assets
Corporate Debt Instruments - 14.79%				
Aerospace/Defense	28,307,000	Kellstrom Industries, Inc. 5.75%, due 10/15/02 (a)*	$ 424,605	
	45,384,000	Kellstrom Industries, Inc. 5.50%, due 06/15/03 (a)*	680,760	
			1,105,365	0.05%
Building & Construction	78,559,000	USG Corp. 9.25%, due 09/15/01 (a)*	63,239,995	
	85,535,000	USG Corp. 8.50%, due 08/01/05 (a)*	68,855,675	
			132,095,670	5.58%
Consumer Products	62,300,000	Home Products International, Inc. 9.625%, due 05/15/08	58,250,500	2.46%
Finance	6,000,000	CIT Group, Inc., 5.625%, due 10/15/03	5,985,372	
	7,500,000	CIT Group, Inc., 5.625%, due 05/17/04 (e)	7,486,958	
	20,000,000	CIT Group, Inc., 7.125%, due 10/15/04	20,543,560	
	375,000	CIT Group, Inc., 6.625%, due 06/15/05	380,136	
			34,396,026	1.45%
Hard Goods Retail	18,648,000	Hechinger Co. 6.95%, due 10/15/03 (a)*	1,958,040	
	14,752,000	Hechinger Co. 9.45%, due 11/15/12 (a)*	1,548,960	
			3,507,000	0.15%
Healthcare	1,056,800	Genesis Health Ventures Floating Rate 6.86%, due 04/02/07	1,046,232	0.04%
Lawn & Garden Retail	20,753,000	Frank's Nursery & Crafts, Inc. 10.25%, due 03/01/08 (a)*	2,905,420	0.12%
Medical Biotechnology	1,000,000	Comprehensive Neuroscience Senior Notes 5.75%, due 02/07/06 (c)	100,000	0.01%
Metals-Diversified	6,500,000	Haynes International, Inc. 11.625%, due 09/01/04	4,907,500	0.21%
Retail	370,000	Kmart Corp. 7.72%, due 06/25/02 (a) (c)*	111,000	
	235,000	Kmart Corp. 7.76%, due 07/02/02 (a) (c)*	70,500	
	495,000	Kmart Corp. 7.77%, due 07/02/02 (a) (c)*	148,500	
	180,000	Kmart Corp. 7.72%, due 07/08/02 (a) (c)*	54,000	
	200,000	Kmart Corp. 7.50%, due 07/16/02 (a) (c)*	60,000	
	446,000	Kmart Corp. 7.33%, due 07/31/02 (a) (c)*	133,800	
	250,000	Kmart Corp. 7.47%, due 07/31/02 (a) (c)*	75,000	
	75,000	Kmart Corp. 8.18%, due 11/24/03 (a) (c)*	22,500	
	539,000	Kmart Corp. 8.19%, due 11/24/03 (a) (c)*	161,700	

Third Avenue Trust
Third Avenue Value Fund
Portfolio of Investments (continued)
at July 31, 2002
(Unaudited)

	Principal Amount ($)	Issues	Value	% of Net Assets
Corporate Debt Instruments (continued)				
Retail (continued)	1,481,000	Kmart Corp. 8.20%, due 11/24/03 (a) (c)*	$ 444,300	
	1,250,000	Kmart Corp. 8.13%, due 12/16/03 (a) (c)*	375,000	
	269,000	Kmart Corp. 7.55%, due 07/27/04 (a) (c)*	80,700	
	1,500,000	Kmart Corp. 8.375%, due 12/01/04 (a) (e)*	487,500	
	3,675,000	Kmart Corp. 12.50%, due 03/01/05 (a) (e)*	1,231,125	
	43,725,000	Kmart Corp. 9.375%, due 02/01/06 (a) (e)*	14,647,875	
	2,385,000	Kmart Corp. 8.28%, due 11/15/06 (a) (c)*	715,500	
	549,000	Kmart Corp. 8.25%, due 11/20/06 (a) (c)*	164,700	
	81,000	Kmart Corp. 8.26%, due 11/20/06 (a) (c)*	24,300	
	1,050,000	Kmart Corp. 8.125%, due 12/01/06 (a) (e)*	341,250	
	17,500,000	Kmart Corp. 9.875%, due 06/15/08 (a) (e)*	5,600,000	
	3,431,000	Kmart Corp. 8.85%, due 12/15/11 (a) (c)*	1,029,300	
	441,000	Kmart Corp. 7.75%, due 10/01/12 (a) (e)*	145,530	
	451,000	Kmart Corp. 8.92%, due 11/01/13 (a) (c)*	135,300	
	1,000,000	Kmart Corp. 8.93%, due 11/29/16 (a) (c)*	300,000	
	1,251,000	Kmart Corp. 8.96%, due 12/10/19 (a) (c)*	375,300	
	2,213,000	Kmart Corp. 8.25%, due 01/01/22 (a)*	697,095	
	1,943,000	Kmart Corp. 8.375%, due 07/01/22 (a)*	612,045	
	11,875,000	Kmart Corp. 7.95%, due 02/01/23 (a) (e)*	3,918,750	
	77,654,432	Kmart Trade Claims (c)	20,966,697	
	1,597,017	Kmart Put Options (c) (f)	431,194	
			53,560,461	2.26%
Telecommunications	3,000,000	Qwest Corp. 7.625%, due 06/09/03	2,565,000	
	12,000,000	Qwest Capital Funding 5.875%, due 08/03/04 (e)	5,340,000	
	10,500,000	Qwest Capital Funding 7.75%, due 08/15/06 (e)	4,357,500	
	10,000,000	Qwest Capital Funding 7.00%, due 08/03/09	3,950,000	
	7,500,000	Qwest Capital Funding 7.90%, due 08/15/10 (e)	2,962,500	
	300,000	Qwest Corp. (U.S. West Communications) 7.625%, due 06/09/03	256,500	
	1,852,000	WorldCom, Inc. 7.55%, due 04/01/04 (a) (e)*	245,390	
	6,776,000	WorldCom, Inc. 6.40%, due 08/15/05 (a)*	897,820	

Third Avenue Trust
Third Avenue Value Fund
Portfolio of Investments (continued)
at July 31, 2002
(Unaudited)

	Principal Amount ($)	Issues	Value	% of Net Assets
Corporate Debt Instruments (continued)				
Telecommunications (continued)	5,000,000	WorldCom, Inc. 7.375%, due 01/15/06 (a)*	$ 662,500	
	80,000,000	WorldCom, Inc. 7.75%, due 04/01/07 (a) (e)*	10,600,000	
	5,500,000	WorldCom, Inc. 7.50%, due 05/15/11 (a) (e)*	728,750	
	30,375,000	WorldCom, Inc. 6.95%, due 08/15/28 (a)*	4,024,688	
	139,513,000	WorldCom, Inc. 8.25%, due 05/15/31 (a) (e)*	18,485,473	
			55,076,121	2.33%
Utilities	3,650,000	Illinois Power, Inc. 6.00%, due 09/15/03	3,029,500	0.13%
		Total Corporate Debt Instruments (Cost $399,591,674)	349,979,795	
U.S. Government Obligations - 2.38%				
U.S. Treasury Notes	30,000,000	U.S. Treasury Note 3.625%, due 03/31/04	30,782,820	
	25,000,000	U.S. Treasury Note 3.375%, due 04/30/04	25,562,525	
			56,345,345	2.38%
		Total U.S. Government Obligations (Cost $55,275,229)	56,345,345	
	Shares			
Preferred Stock - 0.97%				
Bermuda Based Financial Institutions	6,045,667	CGA Group, Ltd., Series C (a)	0	0.00%
Financial Insurance	220	American Capital Access Holdings, Convertible (a) (c)	12,500,000	
	176	American Capital Access Holdings, Senior Convertible (a) (c)	10,000,000	
			22,500,000	0.95%
Healthcare	3,451	Genesis Health Ventures, Inc., 6.00% (c)	345,100	0.02%
Insurance & Reinsurance	4,775	Ecclesiastical Insurance, 8.625%	8,802	
	70,200	RS Holding Convertible Class A (c)	70,200	
			79,002	0.00%
		Total Preferred Stock (Cost $29,964,275)	22,924,102	

Third Avenue Trust
Third Avenue Value Fund
Portfolio of Investments (continued)
at July 31, 2002
(Unaudited)

	Shares	Issues	Value	% of Net Assets
Common Stocks and Warrants - 75.07%				
Annuities & Mutual Fund Management & Sales	10,000	Atalanta/Sosnoff Capital Corp.	$ 104,000	
	65,000	BKF Capital Group, Inc. (a)	1,599,000	
	967,732	Legg Mason, Inc.	41,264,092	
	489,900	The John Nuveen Co. Class A	10,787,598	
	139,212	Westwood Hodings Group, Inc. (a) (e)	1,866,833	
			55,621,523	2.35%
Apparel Manufacturers	150,000	Kleinerts, Inc. (a) (c)	1,200,000	0.05%
Assisted Living Facilities	1,567,118	CareMatrix Corp. (a)	6,741,240	0.28%
Bermuda Based Financial Institutions	432,300	Arch Capital Group, Ltd. (a)	11,646,162	
	118,449	ESG Re, Ltd. (a)	303,229	
	15,675	ESG Re, Ltd. Warrants (a)	1	
	80,000	Montpelier RE Holdings, Ltd. (c)	8,000,000	
	127,500	Olympus RE Holdings, Ltd. (c)	12,750,000	
	295,217	Trenwick Group, Ltd. (e)	1,387,520	
			34,086,912	1.44%
Business Development & Investment Companies	2,344,100	Brascan Corp. - Class A	49,202,659	
	83,370	Capital Southwest Corp.	5,585,790	
	4,600,000	Hutchison Whampoa, Ltd. - (Hong Kong)	33,616,678	
	3,000,000	Investor AB Class A - (Sweden)	20,192,842	
			108,597,969	4.59%
Computerized Trading	1,447,900	Instinet Group, Inc. (a) (e)	7,601,475	
	132,800	Investment Technology Group, Inc. (a)	4,497,936	
			12,099,411	0.51%
Computers, Networks & Software	100,000	3Com Corp. (a)	451,000	0.02%
Consumer Products	75,400	Energizer Holdings, Inc. (a)	2,024,490	0.08%
Depository Institutions	106,000	Astoria Financial Corp.	3,566,900	
	835,000	BankAtlantic Bancorp, Inc. Class A	7,556,750	
	69,566	Banknorth Group, Inc.	1,769,759	

Third Avenue Trust
Third Avenue Value Fund
Portfolio of Investments (continued)
at July 31, 2002
(Unaudited)

	Shares	Issues	Value	% of Net Assets
Common Stocks and Warrants (continued)				
Depository Institutions (continued)	500,000	Brookline Bancorp, Inc.	$ 5,640,000	
	218,500	Carver Bancorp, Inc. (b)	2,294,250	
	61,543	Commercial Federal Corp.	1,615,504	
	40,000	EverTrust Financial Group, Inc.	728,840	
	250,787	Golden State Bancorp, Inc.	8,326,128	
	250,787	Golden State Bancorp, Inc. Litigation Tracking Warrants (a)	225,733	
	41,100	Tompkins Trustco, Inc.	1,841,280	
	390,800	Woronoco Bancorp, Inc. (b)	7,112,560	
			40,677,704	1.72%
Electronics	2,496,500	American Power Conversion Corp. (a)	27,336,675	
	5,760,500	AVX Corp.	75,577,760	
	2,055,400	Electro Scientific Industries, Inc. (a) (b)	36,914,984	
	493,681	IXYS Corp. (a) (e)	2,537,520	
	3,958,200	KEMET Corp. (a)	51,179,526	
	2,630,000	Vishay Intertechnology, Inc. (a)	44,841,500	
			238,387,965	10.07%
Financial Insurance	300,000	Ambac Financial Group, Inc.	18,909,000	
	118,812	American Capital Access Holdings (a) (c)	6,785,968	
	1,672,409	MBIA, Inc.	82,934,762	
			108,629,730	4.59%
Food Manufacturers & Purveyors	495,000	J & J Snack Foods Corp. (a) (b) (e)	19,775,250	0.84%
Healthcare	339,402	Genesis Health Ventures, Inc. (a)	5,467,766	0.23%
Industrial & Agricultural Equipment	594,300	Alamo Group, Inc. (b)	9,092,790	
	299,300	Lindsay Manufacturing Co.	6,464,880	
	360,100	Mestek, Inc. (a)	6,553,820	
	480,500	Standex International Corp.	10,071,280	
	1,100,000	Trinity Industries, Inc. (e)	19,943,000	
			52,125,770	2.20%

Third Avenue Trust
Third Avenue Value Fund
Portfolio of Investments (continued)
at July 31, 2002
(Unaudited)

	Shares	Issues	Value	% of Net Assets
Common Stocks and Warrants (continued)				
Industrial - Japan	5,778,300	Toyota Industries Corp.	$ 87,333,479	3.69%
Insurance Holding Companies	87,035	ACE Ltd.	2,756,398	
	200,678	ACMAT Corp. Class A (a) (b)	1,794,061	
	1,075,580	Radian Group, Inc. (e)	49,261,564	
	58,300	White Mountains Insurance Group, Inc.	19,822,000	
			73,634,023	3.11%
Insurance Services Companies	940,130	Safelite Glass Corp. (a) (c)	2,820,390	
	63,160	Safelite Realty Corp. (a) (c)	189,480	
			3,009,870	0.13%
Life Insurance	836,000	The MONY Group, Inc.	25,439,480	
	2,009,900	The Phoenix Companies, Inc.	31,856,915	
			57,296,395	2.42%
Manufactured Housing	89,000	Liberty Homes, Inc. Class A (e)	485,050	
	40,000	Liberty Homes, Inc. Class B	225,000	
			710,050	0.03%
Medical Supplies & Services	251,300	Analogic Corp. (e)	10,227,910	
	342,300	Datascope Corp.	8,916,915	
	181,500	St. Jude Medical, Inc. (a)	6,897,000	
			26,041,825	1.10%
Natural Resources & Real Estate	1,387,200	Alexander & Baldwin, Inc.	33,875,424	
	166,000	Alico, Inc.	4,722,700	
	959,000	Burnham Pacific Properties, Inc.	1,030,925	
	975,900	Catellus Development Corp. (a)	18,932,460	
	31,000	Consolidated-Tomoka Land Co.	506,850	
	1,766,514	Forest City Enterprises, Inc. Class A (b) (e)	60,768,082	
	11,250	Forest City Enterprises, Inc. Class B	402,187	
	473,489	HomeFed Corp. (a)	421,405	
	1,352,836	Koger Equity, Inc. (b)	24,121,066	
	14,600	LNR Property Corp.	478,150	

Third Avenue Trust
Third Avenue Value Fund
Portfolio of Investments (continued)
at July 31, 2002
(Unaudited)

	Shares	Issues	Value	% of Net Assets
Common Stocks and Warrants (continued)				
Natural Resources & Real Estate (continued)	846	Public Storage, Inc.	$ 31,936	
	3,420,106	Tejon Ranch Co. (a) (b)	76,268,364	
	1,147,200	The St. Joe Co.	32,695,200	
	1,000,000	The St. Joe Co. (a) (c)	27,075,000	
	2,150,000	Trammell Crow Co. (a) (b) (c)	23,284,500	
			304,614,249	12.87%
Non-Life Insurance-Japan	9,159,100	Aioi Insurance Co., Ltd.	19,732,159	
	2,116,200	Millea Holdings, Inc. ADR	82,555,078	
	10,857,140	Mitsui Sumitomo Insurance Co., Ltd.	52,039,059	
	4,420,560	Sompo Japan Insurance, Inc.	26,392,798	
			180,719,094	7.64%
Oil Services	1,385,000	Nabors Industries, Inc. (a)	42,270,200	1.79%
Pharmaceutical Services	1,308,740	Innovative Clinical Solutions, Ltd. (a) (b)	49,078	
	588,600	Kendle International, Inc. (a) (e)	6,180,300	
	598,000	PAREXEL International Corp. (a)	7,092,280	
	637,500	Pharmaceutical Product Development, Inc. (a)	14,693,100	
			28,014,758	1.18%
Security Brokers, Dealers & Flotation Companies	223,600	Jefferies Group, Inc. (e)	8,921,640	
	1,086,250	Raymond James Financial, Inc.	29,546,000	
	556,850	SWS Group, Inc. (e)	6,270,131	
			44,737,771	1.89%
Semiconductor Equipment Manufacturers & Related	700,000	Applied Materials, Inc. (a)	10,409,000	
	2,975,283	ASML Holding N.V. (a)	35,257,104	
	1,350,300	Credence Systems Corp. (a)	18,499,110	
	2,874,700	Electroglas, Inc. (a) (b) (e)	10,895,113	
	3,679,000	FSI International, Inc. (a) (b)	18,983,640	
	100,000	KLA-Tencor Corp. (a)	3,939,000	
	208,676	Novellus Systems, Inc. (a) (e)	5,632,165	
	300,000	Photronics, Inc. (a) (e)	3,648,000	

Third Avenue Trust
Third Avenue Value Fund
Portfolio of Investments (continued)
at July 31, 2002
(Unaudited)

	Shares	Issues	Value	% of Net Assets
Common Stocks and Warrants (continued)				
Semiconductor Equipment Manufacturers & Related (continued)	500,000	Veeco Instruments, Inc. (a) (e)	$ 6,800,000	
			114,063,132	4.82%
Small-Cap Technology	1,499	CareCentric, Inc. (a)	751	
	247,200	Planar Systems, Inc. (a)	4,681,968	
			4,682,719	0.20%
Telecommunications	2,000,000	CIENA Corp. (a)	8,060,000	
	1,250,000	Comverse Technology, Inc. (a)	9,950,000	
	2,008,200	Tellabs, Inc. (a)	11,506,986	
			29,516,986	1.25%
Title Insurance	2,000,000	First American Corp.	38,100,000	
	1,029,615	Stewart Information Services Corp. (a) (b)	18,687,512	
			56,787,512	2.40%
Transportation	1,311,571	Danielson Holding Corp. (a) (c)	6,164,384	
	55,032	Florida East Coast Industries, Inc. Class B	1,168,880	
			7,333,264	0.31%
Utilities & Utility Service Companies	3,000,000	Aquila, Inc. (a)	21,540,000	
	4,493,100	Quanta Services, Inc. (a) (e)	8,581,821	
			30,121,821	1.27%
		Total Common Stocks and Warrants (Cost $1,646,930,058)	1,776,773,878	
	Investment Amount ($)			
Limited Partnerships - 0.10%				
Bermuda Based Financial Institutions	2,202,000	ESG Partners, LP (a) (c)	128,005	0.01%
Insurance Holding Companies	3,264,756	Head Insurance Investors, LP (a) (c)	852,383	
	1,615,000	Insurance Partners II Equity Fund, LP (a) (c)	1,339,379	
			2,191,762	0.09%

Third Avenue Trust
Third Avenue Value Fund
Portfolio of Investments (continued)
at July 31, 2002
(Unaudited)

		Issues	Value	% of Net Assets
		Total Limited Partnerships (Cost $7,081,756)	$ 2,319,767	
	Notional Amount ($)			
Other Investments - 0.34%				
Foreign Currency Swap Contracts	250,000,000	Bear Stearns Currency Swap, Termination Date 04/23/03 (g)	7,953,974	0.34%
		Total Other Investments (Cost $0)	7,953,974	
		Total Investment Portfolio - 99.90% (Cost $2,294,809,323)	2,364,363,064	
		Cash & Other Assets less Liabilities - 0.10%	2,320,275	
		NET ASSETS - 100.00%	$2,366,683,339	
		(Applicable to 74,569,422 shares outstanding)		
		NET ASSET VALUE PER SHARE	$31.74	

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) Securities in whole or in part on loan.
(f) The Fund is obligated to purchase $1.6 million trade claims at $0.70. Due to the likelihood that the option will be exercised, it is currently being valued at the underlying trade claims.
(g) The Fund is selling 32.6 billion Japanese yen and paying an interest rate of 0.12% in exhange for 250 million U.S. dollars and an interest rate of 2.73%
* Issuer in default.
ADR: American Depository Receipt.

Third Avenue Small-Cap Value Fund

Dear Fellow Shareholders:

At July 31, 2002, the end of the third fiscal quarter, the unaudited net asset value attributable to the 28,619,811 common shares outstanding of the Third Avenue Small-Cap Value Fund ("Small-Cap Value" or the "Fund") was $14.03 per share, compared with the Fund's unaudited net asset value of $16.28 per share at April 30, 2002 and an unaudited net asset value of $15.31 per share at July 31, 2001, adjusted for a subsequent distribution. At September 10, 2002, the unaudited net asset value was $13.68 per share.

QUARTERLY ACTIVITY

During the quarter, Small-Cap Value established ten new positions, added to 21 of its 63 existing positions, eliminated four positions and reduced its holdings in one company. At July 31, 2002, Small-Cap Value held positions in 69 companies, the top 10 positions of which accounted for approximately 27% of the Fund's net assets.

Number of Shares	New Positions Acquired
568,500 shares	Agrium, Inc. Common Stock ("Agrium Common")
1,036,300 shares	CIENA Corp. Common Stock ("CIENA Common")
594,000 shares	CommScope, Inc. Common Stock ("CommScope Common")
42,500 shares	E-L Financial Corp., Ltd. Common Stock ("E-L Financial Common")
355,800 shares	Scientific-Atlanta, Inc. Common Stock ("Scientific-Atlanta Common")
100,000 units	SFK Pulp Fund Units ("SFK Units")
801,200 shares	Sycamore Networks, Inc. Common Stock ("Sycamore Common")
306,300 shares	Tellabs, Inc. Common Stock ("Tellabs Common")
151,400 shares	Ulticom, Inc. Common Stock ("Ulticom Common")
154,070 shares	Westwood Holdings Group, Inc. Common Stock ("Westwood Common")

Number of Shares	Increases in Existing Positions
54,600 shares	Advanced Power Technology, Inc. Common Stock (“Advanced Power Common”)
178,900 shares	American Power Conversion, Inc. Common Stock (“American Power Common”)
44,000 shares	Arch Capital Group, Inc. Common Stock (“Arch Capital Common”)
50,500 shares	Bel Fuse, Inc. Class B Common Stock (“Bel Fuse Common”)
76,000 shares	Brascan Corp. Common Stock (“Brascan Common”)
58,100 shares	Coherent, Inc. Common Stock (“Coherent Common”)
1,021,370 shares	Comverse Technology, Inc. Common Stock (“Comverse Common”)
337,800 shares	Credence Systems Corp. Common Stock (“Credence Common”)
204,100 shares	CyberOptics Corp. Common Stock (“CyberOptics Common”)
52,600 shares	Electro Scientific Industries, Inc. Common Stock (“ESI Common”)
54,300 shares	Forest City Enterprises, Inc. Class A Common Stock (“Forest City Common”)
693,000 shares	Instinet Group, Inc. Common Stock (“Instinet Common”)
129,700 shares	KEMET Corp. Common Stock (“KEMET Common”)
34,900 shares	Leucadia National Corp. Common Stock (“Leucadia Common”)
209,500 shares	LNR Property Corp. Common Stock (“LNR Common”)
107,000 shares	Maxwell Shoe Co., Inc. Common Stock (“Maxwell Common”)

Number of Shares	Increases in Existing Positions (continued)
90,100 shares	Park Electrochemical Corp. Common Stock (“Park Common”)
91,000 shares	The St. Joe Company Common Stock (“St. Joe Common”)
145,800 units	Timberwest Forest Corp. Units (“Timberwest Units”)
606,400 shares	TriQuint Semiconductor, Inc. Common Stock (“TriQuint Common”)
192,300 shares	Wellsford Real Properties, Inc. Common Stock (“Wellsford Common”)
	Decreases in Existing Positions
24,800 shares	Skyline Corp. Common Stock (“Skyline Common”)
	Positions Eliminated
22,000 shares	Brooks Automation, Inc. Common Stock (“Brooks Common”)
54,600 shares	Cummins, Inc. Common Stock (“Cummins Common”)
17,000 shares	Security Capital Group, Inc. Class B Common Stock (“Security Capital Common”)
157,900 shares	Trenwick Group Ltd. Common Stock (“Trenwick Common”)

QUARTERLY ACTIVITY

Tumultuous equity markets made for a busy quarter and for some good opportunities! In a nod to that activity, the Fund's cash position—at a record high 29% in April—fell dramatically to end the July quarter at 14%. Shares outstanding grew modestly.

The Fund significantly expanded its position in telecommunications equipment common stocks or what might be thought of as "broadband infrastructure," a horribly depressed industry. Six of the ten new positions, for example, represent Fund management's view that, longer-term, the world's communications capabilities will continue to grow and improve—technologically speaking—and that these companies will benefit accordingly. The Fund's new investments in Ciena Common, Sycamore Common, Tellabs Common and Ulticom Common, as well as an increased position in Comverse Common, share several positive characteristics:

- Extremely strong financial positions (relative not only to the company's needs, but also to their financially-constrained competitors), scarce resources in today's world that translate to long-term staying power;
- Prices paid by the Fund attribute little value—and in some cases less than zero value—to the businesses and equate to valuations that would be at least as attractive as those structured by first stage venture capitalists;
- Managements dedicated to reigning in costs in order to operate at break-even or at least tolerable levels of cash consumption;
- With little exception, historically attractive levels of profitability, cash flow generation, returns on assets, and deep entrenchment within the customer base in tandem with technological innovation;
- An industry landscape that continues to be reshaped by consolidation.

Notwithstanding these positive themes, our chances for success will likely improve with, and to some extent hinge on, the addition of a number of different ingredients, including:

- The capital markets, including the venture community, will have to largely limit access to capital for competitors (think Lucent, Alcatel, Ericsson, Nortel and others);
- Liquidation of marginal network capacity;
- Capital spending by corporations and the Regional Bell operating companies will have to revive, most likely in conjunction with an improvement in general economic conditions and regulatory relief;
- The customer base will have to stabilize and rationalize, both financially and in terms of capacity;
- Degradation of existing services—which by some accounts has already started—pushing the service provider customer base to upgrade its plant;
- Take-up of new services by the end consumer, in a manner that meaningfully reduces the excess capacity existing in certain networks.

I do not have a specific timeframe for when all of these ingredients might materialize. In all probability, it will take longer than I imagine. It does seem, however, that the table is being set. Post reorganization ownership changes suggest a generation of more rational, profit-oriented ownership. The recent investments in Level Three Communications by Berkshire Hathaway, for example, and the purchase of Global Crossing's assets by Hutchison Whampoa, Ltd., both clever investors, suggest that help is on the way. The cleansing of the accounting scandals at Worldcom and Qwest, and the pending reorganizations of those companies, should also lend meaningful stability to the broadband service provider industry. Even if the broadband equipment suppliers end up having to share some of their future economics with their service provider customer base in order to improve their viability, the businesses ought to remain reasonably attractive.

Our investments in CommScope Common and Scientific-Atlanta Common reflect similar lines of reasoning to the telecom equipment investments outlined above. The Fund purchased shares of CommScope Common, the leading provider of hybrid fiber coaxial cable, at prices that equate to 4x-6x peak earnings, modest premiums to GAAP book value, and to reasonable multiples of free cash flow. Shares of Scientific-Atlanta Common, one of the leading makers of cable set-top boxes, were purchased at similarly depressed valuations. While the cable industry stabilizes and rationalizes its own capital spending, it also must consider new service offerings from competitors like the telephone and satellite service provider/operators. These competitive forces, in and of themselves, might well reinvigorate demand for the equipment provided by CommScope and Scientific-Atlanta.

The Fund initiated meaningful positions in two Canadian company common stocks, E-L Financial Common and Agrium Common. E-L Financial operates in the life insurance industry through its subsidiary Empire Life and in the property/casualty insurance business through its subsidiary Dominion of Canada. In addition, E-L Financial manages an investment portfolio, primarily through a number of closed-end funds. The debt-averse management team has compounded the annual growth in per share value during the past 30 years at a rate approximating 13%. E-L Financial's normally illiquid common stock became readily available when Standard & Poor's dropped it from the Toronto Stock Exchange's TSE 300 Index, forcing index fund managers to sell the issue. Based on the Fund's cost basis, shares were purchased at an attractive discount to the underlying estimated Net Asset Value.

Agrium is one of the world's leading fertilizer producers with products that include nitrogen, potash and phosphate. The company's well-run, attractively-located and cash-generative assets were purchased at a 60%-70% discount to replacement value and at modest multiples of earnings and cash flow. While industry capacity additions have been limited and production held in check, demand for nutrients, grains and cereals continues to grow, and may increase, particularly as trade relations with China improve. The highly fragmented nature of the industry also suggests that real growth is achievable through consolidation.

On the sell side, Fund management eliminated its position in Cummins Common and Trenwick Common. Both of these issues reflect the greatly weakened financial conditions of the underlying businesses. GE Capital completed its tender offer for the shares of Security Capital. Shares of ProLogis Trust, received as part of the consideration in the Security Capital transaction, were sold as they represented a small position to which we could not add; its market capitalization—at more than $4 billion—fell outside small-cap definitions. The sell program initiated for Brooks Common two quarters ago was completed this quarter.

> **"Today, American markets enjoy the confidence of the world. How many half-truths, and how much accounting sleight-of-hand, will it take to tarnish that faith?"**
> —Arthur Levitt, former SEC Chairman, speech at New York University 9/28/98

When Chairman Levitt asked that question nearly four years ago, he probably did not foresee the recent spate of corporate accounting scandals and outright frauds perpetrated by some of America's leading corporations. Hoping to allay investor fears and to impose a heightened level of discipline on corporate America, the Securities and Exchange Commission (SEC) published in late June a list of 945 companies "whose chief executive and chief financial officers are now required to personally certify—in writing, under oath, and for publication—that their most recent reports filed with the Commission are both complete and accurate." On July 25, Congress enacted the Sarbanes-Oxley Act of 2002 and President Bush signed it into law on July 30. The most dramatic securities reform legislation since the 1930s, Sarbanes-Oxley aims to expand the SEC's insider accountability rules, improve corporate disclosure and governance, and increase auditor independence.

While many senior management teams undoubtedly huddled with their legal and accounting teams in an effort to clarify the many questions raised by the Act, one thing is clear: Generally Accepted Accounting Principles ("GAAP") can not provide investors "accurate" financials as contemplated by the Act. Because GAAP ultimately relies on human judgment, assumptions, estimates and ethics, and allows for flexibility in its application, it is, per se, flawed. In many, if not most, instances there is no single correct, or "accurate," answer for any individual accounting treatment.

To illustrate one example of how "accurate" financials might be called into question, we searched among the 30 component companies of the Dow Jones Industrial Average—the "leaders of their industries" and the household names familiar to every investor—for major restructuring charges during the past few years. Also known as "Big Baths[1]" in accounting jargon and meant to "clean up" the balance sheet, major restructuring charges occur when a management team and its auditors conclude that the carrying value of a given asset as recorded under GAAP exceeds the asset's fair value (i.e., value impairment). Because the measurement of value impairment itself depends on forecasting future cash flows, grouping assets together in a specified manner and a host of other complex judgments and estimates, Big Bath accounting charges are especially germane to the question of whether or not "accuracy" can ever be achieved in financial reporting. (According to a Morgan Stanley study, a record $125 billion of Big Bath charges were recorded in 2001.)

[1] Critics of Big Bath accounting charges claim that by overstating expenses today management can 1) assure investors that it is being ultra "conservative" by taking the largest charges possible and 2) report artificially increased accounting profits in future periods after reversing some of the charges taken in prior periods. Critics suggest that charges should be spread over prior and future quarters' results of operations.

The results surprised us. From 1999 to 2001, nearly every major Dow component company recorded one or more Big Bath charges totaling hundreds of millions—and in several cases billions—of dollars. In 2001 alone, for example, more than one-half of the Dow component companies recorded charges exceeding $500 million each. Examples of the 2001 charges reported by Dow component companies include—but certainly were not limited to—the following:

- American Express: $1 billion for the write-down of high yield securities;
- AT&T: $2.5 billion for business exit costs and asset impairment;
- Procter & Gamble: $1.9 billion for accelerated depreciation, restructuring, and asset impairment;
- 3M Corp.: $569 million for accelerated depreciation and employee severance;
- Walt Disney Company: $1.5 billion for asset/investment impairment and other;

By and large, these Dow company management teams played within the accounting rules (and take special pains to make certain everyone knows it). Despite adherence to the rules, however, management teams reporting these kinds of charges tacitly admit that financial reports contain more than just a bit of snake oil. Also, such charges smudge the economic mosaic pieced together by professional investors and analysts.

Perversely, by sprinkling "accuracy dust" on corporate financials, regulators may be perpetuating a false sense of security among the average, ill-equipped investor. By focusing more attention on what the numbers are—they are, after-all, accurate—rather than what the numbers mean, investors may well lower their guard. Well-trained and experienced analysts, as those of us at Third Avenue strive to be, will cut through the coating of "accuracy dust" and focus on what the numbers mean, not what the numbers are. A list of the 30 Dow Jones components and the related accounting charges can be seen on our website, www.thirdave.com.

As many of you know, Third Avenue Management in August 2002 completed the sale of a majority stake in the firm to Affiliated Managers Group, Inc. ("AMG"). As part of the AMG family, Third Avenue joins a fine group of investment managers. Importantly for Third Avenue shareholders, the transaction 1) leaves untouched our "Safe and Cheap" investment philosophy and 2) provides stability and long-term incentives for our management team. I and other key members of our team have signed long-term employment contracts and have increased our holdings in the Funds. I continue to count my lucky stars. Thank you for your continued support.

I look forward to writing you again when we publish our Annual Report dated October 31, 2002.

Sincerely,

Curtis R. Jensen

Curtis R. Jensen
Portfolio Manager,
Third Avenue Small-Cap Value Fund

Third Avenue Trust
Third Avenue Small-Cap Value Fund
Portfolio of Investments
at July 31, 2002
(Unaudited)

	Principal Amount ($)	Issues	Value	% of Net Assets
Asset Backed Securities - 11.15%				
Government National Mortgage Association	10,000,000	GNMA 2002-19 PA 5.50%, due 03/20/25	$ 10,317,768	
	10,000,000	GNMA 2002-20 PK 5.50%, due 12/20/25	10,395,994	
	9,850,980	GNMA 2002-36 AK 6.00%, due 02/20/26	10,141,962	
	4,622,707	GNMA 2001-13 DK 5.80%, due 07/20/27	4,780,592	
	5,881,479	GNMA 2002-21 SA 14.78%, due 07/16/31	6,103,570	
	2,983,170	GNMA 2002-41 QS 9.00%, due 06/20/32	3,031,388	
			44,771,274	11.15%
		Total Asset Backed Securities (Cost $44,001,654)	44,771,274	
U.S. Government Obligations - 2.55%				
U.S. Treasury Note	10,000,000	U.S. Treasury Note 3.625%, due 03/31/04	10,260,940	2.55%
		Total U.S. Government Obligations (Cost $10,049,692)	10,260,940	
	Shares			
Common Stocks - 84.56%				
Agricultural Chemicals	568,500	Agrium, Inc.	4,889,100	1.22%
Business Development & Investment Companies	685,800	Brascan Corp. Class A	14,394,942	
	13,500	Capital Southwest Corp.	904,500	
	2,986,000	JZ Equity Partners PLC	6,297,413	
	210,100	Leucadia National Corp.	7,086,673	
			28,683,528	7.14%
Cable Television Equipment	594,000	CommScope, Inc. (a) (b)	4,455,000	
	355,800	Scientific-Atlanta, Inc.	4,500,870	
			8,955,870	2.23%
Consumer Products	139,200	Energizer Holdings, Inc. (a)	3,737,520	
	171,000	Maxwell Shoe Co., Inc. Class A (a)	2,062,260	
			5,799,780	1.44%
Electronics	536,000	Advanced Power Technology, Inc. (a) (b) (d)	5,027,680	
	666,900	American Power Conversion Corp. (a)	7,302,555	

Third Avenue Trust
Third Avenue Small-Cap Value Fund
Portfolio of Investments (continued)
at July 31, 2002
(Unaudited)

	Shares	Issues	Value	% of Net Assets
Common Stocks (continued)				
Electronics (continued)	284,500	Bel Fuse, Inc. Class B	$ 6,330,125	
	549,517	IXYS Corp. (a) (b)	2,824,517	
	675,600	KEMET Corp. (a)	8,735,508	
	1,295,200	TriQuint Semiconductor, Inc. (a)	8,574,224	
			38,794,609	9.66%
Financial Insurance	158,800	MBIA, Inc.	7,874,892	1.96%
Forest Products & Paper	255,400	Deltic Timber Corp. (b)	7,153,754	
	100,000	SFK Pulp Fund (Canada)	630,087	
	1,300,500	TimberWest Forest Corp. (Canada)	10,794,813	
			18,578,654	4.63%
Industrial Equipment	345,400	Alamo Group, Inc.	5,284,620	
	168,600	Lindsay Manufacturing Co.	3,641,760	
	262,900	Trinity Industries, Inc. (b)	4,766,377	
			13,692,757	3.41%
Insurance & Reinsurance	295,100	Arch Capital Group, Ltd. (a)	7,949,994	
	20,000	Montpelier RE Holdings, Ltd. (c)	2,000,000	
	42,500	Olympus RE Holdings, Ltd. (c)	4,250,000	
			14,199,994	3.54%
Insurance Holding Companies	71,852	Radian Group, Inc. (b)	3,290,822	0.82%
Insurance - Multi Line	42,500	E-L Financial (Canada)	7,270,316	1.81%
Investment Companies	154,070	Westwood Holdings Group, Inc. (a) (b)	2,066,079	0.51%
Life Insurance	179,000	FBL Financial Group, Inc. Class A	3,721,410	
	328,000	The MONY Group, Inc.	9,981,040	
	582,200	The Phoenix Companies, Inc.	9,227,870	
			22,930,320	5.71%
Manufactured Housing	75,200	Skyline Corp.	2,440,240	0.61%
Media	120,000	ValueVision International, Inc. Class A (a) (b)	1,807,200	0.45%
Metal & Metal Products	181,900	Century Aluminum Co. (b)	1,546,150	0.38%

Third Avenue Trust
Third Avenue Small-Cap Value Fund
Portfolio of Investments (continued)
at July 31, 2002
(Unaudited)

	Shares	Issues	Value	% of Net Assets
Common Stocks (continued)				
Natural Resources & Real Estate	187,500	Alexander & Baldwin, Inc.	$ 4,578,750	
	187,300	Alico, Inc.	5,328,685	
	139,000	Avatar Holdings, Inc. (a) (b)	3,579,250	
	323,900	Forest City Enterprises, Inc. Class A	11,142,160	
	133,400	Jones Lang LaSalle, Inc. (a) (b)	2,686,676	
	268,800	Koger Equity, Inc.	4,792,704	
	351,000	LNR Property Corp.	11,495,250	
	100,000	The St. Joe Co. (a) (c)	2,707,500	
	91,000	The St. Joe Co.	2,593,500	
	274,600	Tejon Ranch Co. (a)	6,123,580	
	200,000	Trammell Crow Co. (a) (c)	2,166,000	
	343,000	Wellsford Real Properties, Inc. (a) (d)	6,294,050	
			63,488,105	15.81%
Non-Life Insurance - Japan	729,000	Sompo Japan Insurance, Inc.	4,352,469	1.08%
Oil Services	228,700	Precision Drilling Corp. (a) (b)	6,792,390	1.69%
Pharmaceutical Services	40,000	Kendle International, Inc. (a) (b)	420,000	
	58,100	PAREXEL International Corp. (a)	689,066	
	135,200	Pharmaceutical Product Development, Inc. (a)	3,116,090	
			4,225,156	1.05%
Securities Brokers, Dealers & Floatation Companies	1,628,184	Instinet Group, Inc. (a) (b)	8,547,966	
	386,280	SWS Group, Inc. (b)	4,349,513	
			12,897,479	3.21%
Semiconductor Equipment Manufacturers & Related	24,310	ASML Holding N.V. (a)	288,073	
	221,200	Coherent, Inc. (a) (b)	5,094,236	
	925,500	Credence Systems Corp. (a)	12,679,350	
	554,300	CyberOptics Corp. (a) (b) (d)	4,151,707	
	394,900	Electro Scientific Industries, Inc. (a) (b)	7,092,404	
	100,000	Electroglas, Inc. (a) (b)	379,000	
	573,400	FSI International, Inc. (a)	2,958,744	

Third Avenue Trust
Third Avenue Small-Cap Value Fund
Portfolio of Investments (continued)
at July 31, 2002
(Unaudited)

	Shares	Issues	Value	% of Net Assets
Common Stocks (continued)				
Semiconductor Equipment Manufacturers & Related (continued)	18,000	Novellus Systems, Inc. (a) (b)	$ 485,820	
			33,129,334	8.25%
Technology	232,900	Herley Industries, Inc. (a) (b)	4,774,450	
	207,600	Park Electrochemical Corp.	4,152,000	
	95,000	Planar Systems, Inc. (a)	1,799,300	
			10,725,750	2.67%
Telecommunications Equipment	1,036,300	CIENA Corp. (a)	4,176,289	
	1,260,870	Comverse Technology, Inc. (a) (b)	10,036,525	
	801,200	Sycamore Networks, Inc. (a)	2,243,360	
	306,300	Tellabs, Inc. (a)	1,755,099	
	151,400	Ulticom, Inc. (a) (b)	984,100	
			19,195,373	4.78%
Title Insurance	105,000	First American Corp.	2,000,250	0.50%
		Total Common Stocks (Cost $347,459,865)	339,626,617	
		Total Investment Portfolio - 98.26% (Cost $401,511,211)	394,658,831	
		Cash & Other Assets less Liabilities - 1.74%	6,975,955	
		NET ASSETS —100.00%	$401,634,786	
		(Applicable to 28,619,811 shares outstanding)		
		NET ASSET VALUE PER SHARE	$14.03	

Notes:
(a) Non-income producing securities.
(b) Securities in whole or in part on loan.
(c) Restricted / fair valued securities.
(d) Affiliated issuers — as defined under the Investment Company Act of 1940 (Ownership of 5% or more of the outstanding voting securities of these issuers).

Third Avenue Real Estate Value Fund

Dear Fellow Shareholders:

At July 31, 2002, the end of the third fiscal quarter of 2002, the unaudited net asset value attributable to the 19,687,275 shares outstanding of the Third Avenue Real Estate Value Fund (the "Fund") was $16.23 per share. This compares with an unaudited net asset value of $17.17 per share at April 30, 2002, and an unaudited net asset value of $15.51 per share at July 31, 2001, adjusted for a subsequent distribution to shareholders. At September 10, 2002, the unaudited net asset value was $16.41 per share.

QUARTERLY ACTIVITY

During the quarter, the Fund established new positions in the common stocks of two companies, one of which was CareMatrix, which resulted from the conversion of subordinated notes pursuant to a Chapter 11 reorganization. The Fund also acquired a participating interest in a mortgage loan to Frank's Nursery & Crafts. The Fund took advantage of stock market volatility and increased its positions in the common stocks of 16 companies at favorable prices. The Fund reduced its position in one common stock and, as a result of principal payments, reduced its positions in three Inverse Floaters. The Fund eliminated its positions in the senior note issue of one company, the common stock of one company (as a result of a resource conversion) and in Kmart CMBS Certificates.

Principal purchases and sales during the quarter were as follows:

Principal Amount or Number of Shares	New Positions Acquired
$5,000,000	Frank's Nursery & Crafts, Inc. 10.25% First Mortgage Loan due 5/21/05 ("Frank's Mortgage Loan")
25,571 shares	CareMatrix Corp. Common Stock ("CareMatrix Common")
296,500 shares	One Liberty Properties, Inc. Common Stock ("One Liberty Common")
	Increases in Existing Positions
90,000 shares	American Land Lease, Inc. Common Stock ("American Land Common")
27,500 shares	Anthracite Capital, Inc. Common Stock ("Anthracite Common")
211,300 shares	Brookfield Properties Corp. Common Stock ("Brookfield Common")

Principal Amount or Number of Shares	Increases in Existing Positions (continued)
242,500 shares	Catellus Development Corp. Common Stock (“Catellus Common”)
110,400 shares	Capital Trust Class A Common Stock (“Capital Trust Common”)
172,500 shares	Consolidated-Tomoka Land Co. Common Stock (“Consolidated Common”)
195,700 shares	Forest City Enterprises, Inc. Class A Common Stock (“Forest City Common”)
277,500 shares	LNR Property Corp. Common Stock (“LNR Common”)
100,100 shares	Prime Group Realty Trust Common Stock (“Prime Group Common”)
201,502 shares	ProLogis Trust Common Stock (“ProLogis Common”)
310,000 shares	PS Business Parks, Inc. Common Stock (“PS Business Common”)
172,100 shares	RAIT Investment Trust Common Stock (“RAIT Common”)
316,900 shares	The St. Joe Company Common Stock (“St. Joe Common”)
367,300 shares	Trammell Crow Company Common Stock (“Trammell Crow Common”)
172,500 shares	Vornado Realty Trust Common Stock (“Vornado Common”)
105,500 shares	Wellsford Real Properties, Inc. Common Stock (“Wellsford Common”)
	Reductions in Existing Positions
$600,155	Federal National Mortgage Association REMIC Trust 1999-48 Class SB Inverse Floater (“Fannie Mae Inverse Floaters”)

Principal Amount or Number of Shares	Reductions in Existing Positions (continued)
$415,052	Federal National Mortgage Association REMIC Trust 2002-31 Class SB Inverse Floater (“Fannie Mae Inverse Floaters”)
$927,297	Government National Mortgage Association REMIC Trust 2002-21 Class SA Inverse Floater (“Ginnie Mae Inverse Floaters”)
132,000 shares	Kimco Realty Corp. Common Stock (“Kimco Common”)
	Positions Eliminated
$1,000,000	CareMatrix Corporation 6.25% Subordinated Notes due 8/15/04 (“CareMatrix Subordinate Notes”)
$2,215,000	DR Securitized Lease Pass-Through Certificates, Series 1993 K-1, 7.43% Class A-2 Certificates due 8/15/2018 (“Kmart CMBS Certificates”)
$1,951,000	DR Securitized Lease Pass-Through Certificates, Series 1994 K-1, 8.55% Class A-3 Certificates due 8/15/2019 (“Kmart CMBS Certificates”)
$2,730,000	Kimco Realty Corp. 6.5% Senior Notes due 10/1/03 (“Kimco Senior Notes”)
245,500 shares	Security Capital Group, Inc. Class B Common Stock (“Security Capital Common”)

DISCUSSION OF QUARTERLY ACTIVITY

During the quarter, the majority of new subscriptions received were used to increase the Fund’s existing holdings in the common stocks of real estate operating companies like Brookfield, Catellus, Consolidated-Tomoka, Forest City, LNR and St. Joe. We took advantage of market volatility and were able to acquire common stocks of well-financed companies at what appear to be very cheap prices. The availability of bargain prices enabled us to reduce cash and short-term investments from 15.5% at April 30, 2002 to 5.5% at July 31, 2002. We also added substantially to the common stocks of a few Real Estate Investment Trusts (“REITs”), including ProLogis, PS Business Parks, RAIT and Vornado.

The Fund established a new position in One Liberty Common. One Liberty is a well-financed small-cap REIT that owns and manages a portfolio of properties that are subject to long-term triple-net leases. The Fund purchased One Liberty Common in a secondary offering at a discount to our estimate of net asset value. The proceeds from the secondary offering will be used for acquisitions.

CareMatrix owns a portfolio of assisted living properties, primarily in New York. During 2000, the Fund, along with the Third Avenue Value Fund, acquired a majority interest in CareMatrix Subordinate Notes at a substantial discount to face value anticipating that the company would need to reorganize through the Chapter 11 bankruptcy process. CareMatrix filed for bankruptcy protection in November 2000. Third Avenue Funds was selected to chair the Unsecured Creditors' Committee and played a key role in structuring the reorganization. The Company's creditors approved the plan of reorganization and the restructured Company emerged from bankruptcy in April 2002. In exchange for CareMatrix Subordinate Notes, holders received newly issued CareMatrix Common. Collectively, the Fund and the Third Avenue Value Fund are the largest shareholders, and a representative of Third Avenue is a member of the CareMatrix board of directors. Due to the Company's limited financial resources and the highly competitive environment, it is still uncertain whether the restructuring will be successful.

Frank's Nursery & Crafts owns and operates a chain of specialty retail stores primarily selling lawn and garden products. During 2000, the Fund, along with the Third Avenue Value Fund acquired approximately 20% of the outstanding issue in Frank's 10.25% senior notes ("Frank's Senior Notes") at a substantial discount to face value anticipating that the company would need to reorganize through the Chapter 11 bankruptcy process. Frank's filed for bankruptcy protection in February 2001. Third Avenue Funds was selected to serve on the Unsecured Creditors' Committee and played a key role in structuring the reorganization. The Company's creditors approved the plan of reorganization and the restructured Company emerged from bankruptcy in May 2002. In exchange for Frank's Senior Notes, holders will receive newly issued Frank's common stock. As part of the reorganization plan, Kimco Realty Corp. (an unaffiliated real estate investment trust), agreed to provide a $20 million term loan and a $10 million revolving credit facility, both secured by mortgages on Frank's stores. The loans bear interest at 10.25% and mature in May 2005. The Fund acquired a 25% participation in the Frank's Mortgage Loan for $5 million and agreed to fund 25% of any draws under the revolving credit facility. In consideration for providing financing, the Fund and Kimco each received warrants to purchase additional shares of Frank's Common at $1.15 per share (the estimated value per common share as stated in the plan of reorganization). Frank's appears to have a good chance at a successful reorganization. The ultimate value of the Fund's original investment in Frank's Senior Notes may not be known for a couple years, but our investment in the Frank's Mortgage Loan seems to be well secured by good real estate.

The Fund eliminated its position in Kmart CMBS Certificates when prices for the securities exceeded our estimate of the present value of future recoveries. In our initial analysis, we estimated that the total recoveries over a two-year holding period would be between 60 and 65 cents on the dollar. The Fund sold the Kmart CMBS Certificates at an average of 59 cents on the dollar, resulting in an excellent return on investment—albeit short-term.

The Fund received consideration of $26 per share (a combination of cash and ProLogis Common) for its position in Security Capital Common upon the acquisition of Security Capital Group by GE Capital. The Fund's average cost of Security Capital Common was $19.29, resulting in an internal rate of return of approximately 32.7%.

ECONOMICS OF REAL ESTATE DEVELOPMENT

The Fund has about 54% of its assets invested in the common stocks of real estate operating companies. The majority of these companies have specialized skills in developing complex, high-quality real estate projects from the ground up. When properly done, the development process can create significant shareholder value that cannot be replicated by companies that rely on acquisitions to generate growth. There are many facets to the development process, any one of which, if not executed adeptly, could prove fatal and spell doom for the project. Those facets generally consist of feasibility, land acquisition, planning, design, governmental approvals, leasing, financing and construction.

It is widely thought that real estate development is a risky endeavor. Trust me—I know from first-hand experience—it can be. However, a strongly financed company with seasoned development professionals in charge and in the field can substantially mitigate development risks and, in many cases, all but eliminate them prior to starting construction. The most significant risks (those that can cost big bucks) in development are leasing and construction. The good-old days of building on spec (speculative building without significant pre-leasing) are gone due to much tighter bank lending standards. Most commercial developments today (at least those of the companies in whose common stocks the Fund invests) are substantially pre-leased. In other words, the future revenue stream is substantially under contract. With development approvals, leases and building permits in hand, the final piece of the puzzle is building the project at a cost that will provide a reasonable return. Fixed-price or guaranteed maximum construction contracts with reputable and credit-worthy general contractors provide reasonable assurances that building costs will be contained.

Not all development projects are eventually built. Indeed, many projects get scrapped well before substantial time and dollars are expended. That said, the development process up to the start of construction sometimes takes years and requires significant cash outlays. There is always the risk that a project will not be feasible even after a long development period, resulting in a write-off of those costs incurred. But scrapping a development that won't be economically feasible prior to starting construction is much easier to swallow than building it and suffering the harsh consequences that will ultimately follow. A well-financed real estate developer can easily absorb write-offs of abandoned development costs—it's simply part of the process and a cost of doing business. Those developers without solid financial positions can ill-afford "dry-hole" expenses and may be motivated to take more risk, i.e., build it and pray everything will work out.

To proceed with construction, the expected return on total cost should be sufficient to compensate the developer for the time and effort involved in the process as well as provide a profit. In other words, upon completion, the project should be worth more than it cost to build. Several factors determine the value of commercial real estate including location, quality of design and construction, and especially, the quality of the expected income stream. A warehouse facility in the middle of nowhere that is leased to a credit-worthy tenant like General Electric at $1 million a year for 20 years might be worth much more than a Class A office building in midtown Manhattan that is leased to a list of no-name tenants at $1 million a year in aggregate. The quality of the expected income stream will determine the required return on total cost.

For example, a grocery-anchored shopping center with a mix of national, regional and local tenants might be appraised at a cap rate of 8% on net operating income ("NOI"). A single tenant building leased to a blue-chip credit tenant might be appraised at a 7% cap rate, whereas a multi-tenant property leased to lesser quality tenants might be appraised at an 11% cap rate. NOI is generally cash flow before debt service and capital expenditures. A cap rate is simply the "going-in" yield that an investor would be willing to accept as a reasonable return based on an all-cash purchase. Value is commonly determined by dividing the NOI by the applicable cap rate (Note: There are other valuation methods that are also used). If the total project cost is, say, $10 million and it will generate $1 million of first-year NOI, the project throws off a 10% return on cost. If the project would be appraised at a cap rate of 8%, then the project should be worth $12.5 million ($1 million NOI divided by 8%). The difference between the $12.5 million appraised value and $10 million development cost is the developer's profit. A merchant builder might sell the project, whereas an investment builder (like Forest City, Catellus and Brookfield) will keep the project in its portfolio and take advantage of opportunities to refinance using non-recourse mortgage debt.

The return on equity on a developed property versus a purchased property can be significant. Using the above example, the following illustrates the difference in the first year return on equity.

	Developed	Acquired
Total Cost	$10,000,000	$12,500,000
Mortgage debt	7,500,000	7,500,000
Equity	2,500,000	5,000,000
NOI	1,000,000	1,000,000
Annual debt service*	608,000	608,000
Net cash flow	$ 392,000	$ 392,000
First year return on equity	15.7%	7.8%

* 6.5% interest rate—25 year amortization

In both situations, the mortgage debt was assumed to be 60% of property value. The developer is only required to have $2.5 million of equity invested in the property, while the purchaser would need $5 million. Once the property's cash flow is stabilized, both owners have the same level of risk, except for the fact that the purchaser has twice as much equity invested. The developer takes calculated risks during the development process, but if done properly, it can mitigate those risks and end up with a significantly higher return on capital with substantially less capital at risk. Investment builders like Catellus, Forest City, St. Joe and Brookfield have talented management teams, excellent balance sheets and solid track records of creating shareholder value through the development process. We continue to like the growth prospects and economics of investing in companies that develop quality real estate projects and hold them for long-term capital appreciation.

As I am sure you know by now, in conjunction with the recent transaction with Affiliated Managers Group, Inc., the senior portfolio managers at Third Avenue Management each signed a long-term employment agreement (including this portfolio manager). Since the Fund's inception in September 1998, I have been committed to the success of the Fund even though I was not bound by agreement. I am happy to report that I continue to increase my level of commitment—not only as a result of signing a long-term employment agreement—but also as an investor in the Fund.

I look forward to writing to you again when we publish the Fund's Annual Report for the year ended October 31, 2002.

Sincerely,

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

Third Avenue Trust
Third Avenue Real Estate Value Fund
Portfolio of Investments
at July 31, 2002
(Unaudited)

	Principal Amount ($)	Issues	Value	% of Net Assets
Convertible Bonds and Equivalents - 0.12%				
Hotels & Motels	6,250,000	Lodgian, Inc. 7.00%, due 06/30/10 (a) (c)*	$ 375,000	0.12%
		Total Convertible Bonds and Equivalents (Cost $1,476,250)	375,000	
Corporate Bonds - 4.17%				
Building Materials	600,000	USG Corp. 9.25%, due 09/15/01 (a)*	483,000	
	500,000	USG Corp. 8.50%, due 08/01/05 (a)*	402,500	
	725,000	USG Corp. (Oregon State Solid Waste Disposal Facilities) Revenue Bonds 6.40%, due 12/01/29 (a)*	507,500	
			1,393,000	0.44%
Diversified Financial Services	2,000,000	Amresco, Inc. 10.00%, due 03/15/04 (a)*	430,000	
	2,579,000	Imperial Credit Industries, Inc. 9.75%, due 01/15/04 (a) (c)*	245,005	
	852,000	Imperial Credit Industries, Inc. 12.00%, due 06/30/05 (a) (c)*	80,940	
			755,945	0.24%
Lawn & Garden Retail	1,234,600	Frank's Nursery & Crafts, Inc. 10.25%, due 03/01/08 (a)*	172,844	0.05%
Real Estate Investment Trusts	4,060,000	EOP Operating LP 6.50%, due 01/15/04	4,220,325	
	5,675,000	Rouse Co., Inc. 8.50%, due 01/15/03	5,783,154	
			10,003,479	3.13%
Real Estate Operating Companies	1,000,000	LNR Property Corp. 9.375%, due 03/15/08	987,500	0.31%
		Total Corporate Bonds (Cost $14,983,942)	13,312,768	
Mortgage Backed Securities - 3.95%				
Federal Home Loan Mortgage Corp.	1,200,000	FHR 2410 SK 18.45% Inverse Floater, due 11/15/29	1,231,061	0.39%
Federal National Mortgage Association	2,546,053	FNR 1999-48 SB 16.28% Inverse Floater, due 09/25/28	2,670,469	
	4,584,958	FNR 2002-31 SB 17.32% Inverse Floater, due 05/25/32	4,904,153	
			7,574,622	2.37%

Third Avenue Trust
Third Avenue Real Estate Value Fund
Portfolio of Investments (continued)
at July 31, 2002
(Unaudited)

	Principal Amount ($)	Issues	Value	% of Net Assets
Mortgage Backed Securities (continued)				
Government National Mortgage Association	3,675,924	GNMA 02-21 SA 14.78% Inverse Floater, due 07/16/31	$ 3,814,731	1.19%
		Total Mortgage Backed Securities (Cost $11,857,610)	12,620,414	
Mortgage Loan - 1.56%				
Mortgage Loan	5,000,000	Frank's Nursery & Crafts, Inc. 10.25%, due 05/21/05 (c)	5,000,000	1.56%
		Total Mortgage Loan (Cost $5,000,000)	5,000,000	
	Shares			
Common Stocks and Warrants - 81.53%				
Assisted Living Facilities	25,571	CareMatrix Corp. (a)	110,000	0.03%
Diversified Financial Services	150,000	Capital Trust Class A (a)	723,000	
	40,806	Imperial Credit Industries, Inc. Warrants (a)	0	
			723,000	0.23%
Manufactured Housing	60,000	Coachmen Industries, Inc.	852,000	
	254,900	Modtech Holdings, Inc. (a)	2,837,037	
			3,689,037	1.15%
Natural Resources	22,700	Deltic Timber Corp.	635,827	
	4,000	TimberWest Forest Corp. (Canada)	33,202	
			669,029	0.21%
Real Estate Investment Trusts	339,298	American Land Lease, Inc.	5,082,684	
	103,000	Anthracite Capital, Inc.	1,138,150	
	31,000	Atlantic Realty Trust, Inc.	299,460	
	125,500	Golf Trust of America, Inc.	336,340	
	229,200	Kimco Realty Corp.	7,366,488	
	122,500	Koger Equity, Inc.	2,184,175	
	296,500	One Liberty Properties, Inc. (d)	4,432,675	

Third Avenue Trust
Third Avenue Real Estate Value Fund
Portfolio of Investments (continued)
at July 31, 2002
(Unaudited)

	Shares	Issues	Value	% of Net Assets
Common Stocks and Warrants (continued)				
Real Estate Investment Trusts (continued)	460,900	Prime Group Realty Trust (a)	$ 2,627,130	
	528,602	ProLogis Trust (b)	13,479,351	
	340,400	PS Business Parks, Inc.	11,982,080	
	272,100	RAIT Investment Trust	5,496,420	
	336,800	Vornado Realty Trust	14,667,640	
			69,092,593	21.63%
Real Estate Management	142,000	Jones Lang LaSalle, Inc. (a) (b)	2,859,880	
	881,000	Trammell Crow Co. (a)	10,043,400	
	50,000	Trammell Crow Co. (a) (c)	541,500	
			13,444,780	4.21%
Real Estate Operating Companies	345,900	Avatar Holdings, Inc. (a)	8,906,925	
	1,207,100	Brookfield Properties Corp.	24,081,645	
	1,054,100	Catellus Development Corp. (a)	20,449,540	
	510,000	Consolidated-Tomoka Land Co. (d)	8,338,500	
	932,900	Forest City Enterprises, Inc. Class A	32,091,760	
	966,700	LNR Property Corp.	31,659,425	
	287,180	Tejon Ranch Co. (a)	6,404,114	
	760,800	The St. Joe Co.	21,682,800	
	100,000	The St. Joe Co. (a) (c)	2,707,500	
	827,550	Wellsford Real Properties, Inc. (a) (d)	15,185,543	
			171,507,752	53.68%
Retail	1,249,999	Frank's Nursery & Crafts, Inc. Warrants (a)	0	0.00%
Title Insurance	66,000	First American Corp.	1,257,300	0.39%
		Total Common Stocks and Warrants (Cost $253,545,988)	260,493,491	

Third Avenue Trust
Third Avenue Real Estate Value Fund
Portfolio of Investments (continued)
at July 31, 2002
(Unaudited)

	Shares	Issues	Value	% of Net Assets
Preferred Stock - 0.46%				
Real Estate Investment Trusts	73,332	Anthracite Capital, Inc. 10% Series B	$ 1,484,973	0.46%
		Total Preferred Stock (Cost $1,411,641)	1,484,973	
	Principal Amount ($)			
Short Term Investments - 3.12%				
U.S. Treasury Bills	10,000,000	U.S. Treasury Bill 1.87%†, due 10/24/02	9,961,030	3.12%
		Total Short Term Investments (Cost $9,957,335)	9,961,030	
		Total Investment Portfolio - 94.91% (Cost $298,232,766)	303,247,676	
		Cash & Other Assets less Liabilities - 5.09%	16,252,385	
		NET ASSETS - 100.00%	$319,500,061	
		(Applicable to 19,687,275 shares outstanding)		
		NET ASSET VALUE PER SHARE	$16.23	

Notes:
(a) Non-income producing securities.
(b) Securities in whole or in part on loan.
(c) Restricted / fair valued securities.
(d) Affiliated issuers - as defined under the Investment Company Act of 1940 (ownership of 5% or more of the outstanding voting securities of those issuers).
* Issuer in default.
† Annualized yield at date of purchase.

Third Avenue International Value Fund

Dear Fellow Shareholders:

At July 31, 2002, the unaudited net asset value attributable to the 1,940,852 shares outstanding of the Third Avenue International Value Fund (the "Fund") was $9.86 per share, compared with the Fund's net asset value at April 30, 2002 of $10.23 per share. At September 10, 2002, the unaudited net asset value was $9.67 per share.

QUARTERLY ACTIVITY:

In the most recent quarter of operations, the Fund established new positions in the common stocks (or units) of four companies and added to positions in the common stocks of 17 companies. The activity was disproportionately weighted toward adding to existing holdings, as they became available at increasingly more attractive valuations.

Number of Shares	New Positions Acquired
21,800 shares	Asatsu-DK Inc. Common Stock ("Asatsu Common")
160,000 shares	Cable & Wireless PLC Common Stock ("C & W Common")
73,500 shares	Canfor Corporation Common Stock ("Canfor Common")
100,000 units	SFK Pulp Fund Units ("SFK Pulp Units")
	Increases in Existing Positions
50,000 shares	Agrium, Inc. Common Stock ("Agrium Common")
350,000 shares	Boardroom Ltd. Common Stock ("Boardroom Common")
1,100 shares	E-L Financial Corp. Ltd. Common Stock ("E-L Financial Common")
5,000 shares	Fomento de Construcciones y Contratas, S.A. Common Stock ("Fomento Common")
11,700 shares	Fording, Inc. Common Stock ("Fording Common")
102,700 shares	GEAC Computer Corporation, Ltd. Common Stock ("GEAC Common")
1,960,000 shares	Hotung Investment Holdings Common Stock ("Hotung Common")
30,000 shares	Hutchison Whampoa Limited Common Stock ("Hutchison Common")
12,000 shares	Ichiyoshi Securities Co. Ltd. Common Stock ("Ichiyoshi Common")
20,000 shares	Makita Corporation Common Stock ("Makita Common")
5 shares	Millea Holdings, Inc. Common Stock ("Millea Common")
108,400 shares	Noble Group Ltd. Common Stock ("Noble Common")
110 shares	Pargesa Holding AG Common Stock ("Pargesa Common")
776,600 shares	Rubicon Ltd. Common Stock ("Rubicon Common")

Number of Shares	Increases in Existing Positions (continued)
102,355 shares	Telecom Corporation of New Zealand Ltd. Common Stock (“Telecom Common”)
260,000 shares	Tranz Rail Holdings Ltd. Common Stock (“Tranz Rail Common”)
115,000 shares	Westshore Terminals Income Fund Units (“Westshore Units”)

Review of Quarterly Activity

The recent depressed operating performance of Asatsu-DK Inc., Japan’s third largest advertising agency, reflects more than just the combined effects of Japan’s prolonged economic downturn, and more recently, advertising downturn. Additionally, it reflects the company’s historic focus on rapid top-line growth without regard to profitability. The recently installed management appears to have somewhat more of a bottom-line orientation than its predecessors, and has begun to take steps to address this long-time decline in profitability, beginning with a voluntary retirement program which will start to reduce the bloated employment cost structure. While the severance costs associated with this program and the sharp drops in the billings across the industry are apt to further depress the company’s reported earnings in the near term, the strong balance sheet should ensure the company’s survival were this to turn out to be a rather protracted downturn in the industry. Asatsu Common was bought at approximately 6.5 times the depressed trailing operating earnings, after adjusting for the company’s securities portfolio.

Cable & Wireless plc (“C & W”) is one of the rare telecommunications service providers with a sizable cash balance, much of which was accumulated by the fortuitously timed sales of some of its telecom subsidiaries, notably in Australia and Hong Kong. C & W’s telecom business as it is currently configured has two principal components: the profitable regional business (“Regional”) which is the incumbent telecommunications provider in roughly 30 centers, the most significant of which are the Caribbean and Panama; and the currently loss making global business (“Global”) which provides voice, data and internet protocol-based solutions to corporate customers, including telecommunications operators and service providers. C & W is well-capitalized with cash and cash equivalents (net of all debt) approximating 2.6 billion pounds sterling at the end of March 2002, which should allow it to complete Global’s capital expenditures and fund its losses in the short term without recourse to external financing. The valuation at which C & W Common was purchased assumed: a modest multiple of the free cash flow generated by Regional (reflecting the risk that these are entities whose profitability reflects the regulatory mood of the local government), a zero value for Global after two further years of investment in that business, and a cash balance reduced by two years worth of funding of the capital expenditures and losses at Global. One would suspect that the closure of some of the operators competing with some of Global’s businesses, as well as the rising possibility for C & W to be part of the industry consolidation, now in its early stages, could make our assessment of the recovery value for this business somewhat low.

The principal business for Canfor Corporation ("Canfor") and SFK Pulp Fund ("SFK") is the production of Northern Bleached Softwood Kraft pulp in Canada, with Canfor's operations being located in Western Canada, and SFK's sole pulp mill in the East. Their pulp business has been doubly hurt by the reduced demand for paper (for which it is the principal constituent) and by vertically-integrated paper makers selling their excess pulp production on the market; resulting in the seemingly counterintuitive phenomenon where lower prices are accompanied by rising supplies! This has been a depressant of both profitability of the firms operating in this industry and consequently their valuations. Despite the cyclicality and the tremendous capital-intensity of this stage of paper-making, it is an unavoidable part of the process and the assets possessed by each of these companies would be an integral building block to any paper-maker seeking to expand production. In both cases, the Fund was able to purchase the holdings in these companies at prices well below replacement or even transaction values.

In addition to being a pulp producer, Canfor is Canada's largest lumber producer and has been adversely affected by the sizable US tariffs being imposed upon imports of this product, the validity of which under NAFTA will no doubt be contested for some time to come. The decent balance sheet, combined with continuing efforts at cost reduction, ensures that the Company will likely be able to weather the current difficult period.

The asset underlying the SFK Pulp Units is the St. Felicien Pulp mill, which is the lowest cost producer of pulp in North America, and possibly in the developed world. The entity has modest financial leverage and has historically generated cash flow comfortably in excess of its internal operating needs (even when much of the remainder of the industry had turned cash negative). It is envisioned that much of this surplus cash will be paid as a dividend to shareholders, currently on the order of 8-12%, annually. Historically, this asset was a part of a larger company, but the most recent owner, Abitibi-Consolidated Inc., a newsprint producer (whose only pulp facility this represented), chose to sell this asset in an attempt to reduce indebtedness and fund its capital expenditure needs, providing us the opportunity to own the SFK Units at an attractive valuation.

Geographical Distribution of Investments

At the end of July 2002, the geographical distribution of securities held by the Fund was as follows:

	%
Canada	19.98
New Zealand	9.14
Japan	8.66
Singapore	6.35
United Kingdom	6.31
Spain	2.68
Hong Kong	2.67
Switzerland	2.48
Securities–total	58.27
Cash & Other	41.73
Total	100.00%

Note that the table above should be viewed as an *ex-post* listing of where our investments reside, period. As we noted in our January 2002 letter to shareholders, there is no attempt to allocate the portfolio assets between countries (or sectors) based upon an overarching macroeconomic view or index-related considerations.

As you might be aware, Affiliated Managers Group, Inc. ("AMG") has made a significant investment in Third Avenue Management, the investment adviser to Third Avenue Funds. We are pleased to become AMG's latest Affiliate. As a part of this transaction, I and other senior personnel at Third Avenue Management have signed long-term employment contracts. The transaction, by preserving the firm's independence and its unique investment culture, ensures that we will be able to continue investing as we have, without any change to our *modus operandi* of seeking safe, undervalued securities as investments for the long term.

I look forward to writing to you again when we publish the Fund's Annual Report for the period ended October 31, 2002.

Sincerely,

Amit Wadhwaney
Portfolio Manager,
Third Avenue International Value Fund

Third Avenue Trust
Third Avenue International Value Fund
Portfolio of Investments
at July 31, 2002
(Unaudited)

	Shares	Issues	Value	% of Net Assets
Common Stocks - 58.26%				
Advertising Agency	21,800	Asatsu-DK Inc. (Japan)	$ 430,516	2.25%
Agriculture	80,000	Agrium, Inc. (Canada)	688,000	3.59%
Building & Construction Products	23,000	Fomento de Construcciones y Contratas S.A. (Spain)	511,878	
	63,000	Makita Corp. (Japan)	391,921	
			903,799	4.72%
Business Development & Investment Companies	160,000	JZ Equity Partners PLC (United Kingdom)	337,437	1.76%
Corporate Services	803,000	Boardroom, Ltd. (Singapore)	225,571	1.18%
Diversified Operations	70,000	Hutchison Whampoa Ltd. (Hong Kong)	511,558	2.67%
Energy/Coal	28,700	Fording, Inc. (Canada) (b)	453,747	
	130,000	Westshore Terminals Income Fund (Canada)	467,732	
			921,479	4.81%
Forest Products & Paper	73,500	Canfor Corp. (Canada)	473,224	
	2,000,000	Rubicon, Ltd. (New Zealand) (a)	675,161	
	100,000	SFK Pulp Fund (Canada)	630,087	
			1,778,472	9.29%
Insurance	500,000	BRIT Insurance Holdings PLC (United Kingdom)	437,418	
	50	Millea Holdings, Inc. (Japan) (a)	392,464	
			829,882	4.34%
Insurance - Multi Line	2,400	E-L Financial Corp., Ltd. (Canada)	410,559	2.15%
Investment Companies	260	Pargesa Holding AG (Switzerland)	473,723	2.47%
Securities Brokerage	4,560,000	Hotung Investment Holdings, Ltd. (Singapore)	547,200	
	120,000	Ichiyoshi Securities Co., Ltd. (Japan)	440,896	
			988,096	5.16%
Software	265,000	GEAC Computer Corp., Ltd. (Canada) (a)	702,545	3.67%

Third Avenue Trust
Third Avenue International Value Fund
Portfolio of Investments (continued)
at July 31, 2002
(Unaudited)

	Shares	Issues	Value	% of Net Assets
Common Stocks (continued)				
Telecommunications	160,000	Cable & Wireless PLC (United Kingdom)	$ 433,669	
	277,355	Telecom Corp. of New Zealand Ltd. (New Zealand)	612,494	
			1,046,163	5.47%
Transportation	650,400	Noble Group Ltd. (Singapore) (a)	442,919	
	470,000	Tranz Rail Holdings, Ltd. (New Zealand) (a)	462,767	
			905,686	4.73%
		Total Common Stocks (Cost $11,722,546)	11,153,486	
	Notional Amount ($)			
Other Investments - 0.01%				
Put Options	10,000	Japanese Yen Put Option, expires 04/23/03	1,900	0.01%
		Total Other Investments (Cost $15,200)	1,900	
	Principal Amount ($)			
Short Term Investments - 33.92%				
U.S. Treasury Bills	2,000,000	U.S. Treasury Bill 1.83%†, due 08/01/02	2,000,000	
	2,500,000	U.S. Treasury Bill 1.69%†, due 08/22/02	2,498,434	
	1,500,000	U.S. Treasury Bill 1.69%†, due 09/26/02	1,497,088	
	500,000	U.S. Treasury Bill 1.88%†, due 10/24/02	498,052	
			6,493,574	33.92%
		Total Short Term Investments (Cost $6,493,423)	6,493,574	
		Total Investment Portfolio - 92.19% (Cost $18,231,169)	17,648,960	
		Cash & Other Assets less Liabilities - 7.81%	1,495,745	

Third Avenue Trust
Third Avenue International Value Fund
Portfolio of Investments (continued)
at July 31, 2002
(Unaudited)

	Value
NET ASSETS - 100.00%	$ 19,144,705
(Applicable to 1,940,852 shares outstanding)	
NET ASSET VALUE PER SHARE	$9.86

Notes:
(a) Non-income producing security.
(b) Securities in whole or in part on loan.
† Annualized yield at date of purchase.

THIRD AVENUE FUNDS PRIVACY POLICY

Third Avenue Funds respects your right to privacy. We also know that you expect us to conduct and process your business in an accurate and efficient manner. To do so, we must collect and maintain certain personal information about you. This is the information we collect from you on applications or other forms and from the transactions you make with us, affiliates, or third parties. We do not disclose any information about you or any of our former customers to anyone, except to our affiliates (which may include the Funds' distributor and the Fund's affiliated money management entities) and service providers, or as otherwise permitted by law. To protect your personal information, we permit access only by authorized employees. Be assured that we maintain physical, electronic and procedural safeguards that comply with federal standards to guard your personal information.

Officers

Martin J. Whitman
Chairman, Chief Executive Officer

David M. Barse
President, Chief Operating Officer

Michael Carney
Chief Financial Officer, Treasurer

Kerri Weltz
Assistant Treasurer

W. James Hall
General Counsel and Secretary

Julie Smith
Controller

Transfer Agent

PFPC Inc.
211 South Gulph Road
P.O. Box 61503
King of Prussia, PA 19406-0903
(610) 239-4600
(800) 443-1021 (toll-free)

Investment Adviser

Third Avenue Management LLC
767 Third Avenue
New York, NY 10017-2023

Independent Accountants

PricewaterhouseCoopers LLP
1177 Avenue of the Americas
New York, NY 10036

Custodian

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

Third Avenue Funds

Third Avenue Funds
767 Third Avenue
New York, NY 10017-2023
Phone (212)888-5222
Toll Free (800)443-1021
Fax (212)888-6757
www.thirdave.com