



THIRD AVENUE VALUE FUND

THIRD AVENUE SMALL-CAP VALUE FUND

THIRD AVENUE REAL ESTATE VALUE FUND

THIRD AVENUE INTERNATIONAL VALUE FUND

LETTERS TO OUR SHAREHOLDERS

Semi-Annual Commentary

April 30, 2004

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Third Avenue Funds are offered by prospectus only. Prospectuses contain more complete information on advisory fees, distribution charges, and other expenses and should be read carefully before investing or sending money. Please read the prospectus carefully before you send money. Past performance is no guarantee of future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than original cost.

If you should have any questions, please call 1-800-443-1021, or visit our web site at: www.thirdave.com, for updated information or a copy of our prospectus. Current performance results may be lower or higher than performance numbers quoted in certain letters to shareholders.

M.J. Whitman LLC Distributor. 5/27/2004.



Third Avenue Value Fund



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

Dear Fellow Shareholders:

At April 30, 2004, the unaudited net asset value attributable to the 74,151,958 common shares outstanding of the Third Avenue Value Fund ("TAVF", "Third Avenue", or the "Fund") was \$43.25 per share. This compares with an unaudited net asset value of \$42.84 per share at January 31, 2004, and an unaudited net asset value at April 30, 2003 of \$30.79 per share, adjusted for a subsequent distribution to shareholders. At May 24, 2004, the unaudited net asset value was \$42.77 per share.

QUARTERLY ACTIVITY*

The quarter was a relatively quiet one.

One new small toehold position was established in a distressed security, Westpoint Stevens Unsecured Notes. The Fund's position in USG Senior Notes, also a Chapter 11 security, was expanded materially. Further in the distressed arena, the small toehold position in Parmalat Finance Senior Notes was eliminated.

On the equity side, one new position, Guoco Common, was established and two other common stock positions, Hutchison Whampoa and Investor AB, were increased. Positions in two high-tech common stocks, Electro Scientific Industries and FSI International, were eliminated.

Probably the most significant event of the quarter revolved around the decision to drastically reduce TAVF's hedged position in the Japanese Yen. The market value of the Fund's investments in the common stocks of Japanese blue chips aggregated \$544 million at April 30, 2004. While TAVF values these holdings in U.S. Dollars, the securities trade in Japanese Yen in their principal markets. Securities prices increase in U.S. Dollars when the Japanese Yen decreases in price relative to the U.S. Dollar, and *vice versa*. From 1997 through early 2003, Third Avenue had always fully hedged the Yen by using Japanese Yen/U.S. Dollar Swaps. Last year, TAVF reduced this hedge to 50% and accordingly benefited modestly from the relative weakness of the U.S. Dollar during 2003. TAVF now is hedged for only \$100

* Portfolio holdings are subject to change without notice. The following is a list of Third Avenue Value Fund's 10 largest holdings, and the percentage of the total net assets each security represented, as of April 30, 2004: Toyota Industries Corp., 6.01%; Millea Holdings, Inc. ADR, 4.70%; Kmart Holding Corp., 4.44%; Tejon Ranch Co., 3.71%; The St. Joe Company, 3.47%; MBIA, Inc., 3.26%; Mitsui Sumitomo Insurance Co., Ltd., 3.19%; Forest City Enterprises, Inc. (Class A), 2.89%; AVX Corp., 2.82%; and USG 8.50% Senior Notes, 2.79%.



million, or 18% of the total Japanese Yen exposure. Given the enormous and growing U.S. trade deficits, and the deteriorating financial position of the U.S. Government, being relatively “naked” in the Japanese Yen seems to make sense for the Fund, at least temporarily. I believe this based partly on the advice of outside currency experts. No one at Third Avenue Management is really a currency expert. Fund management’s predictions about future fluctuations in currency values are probably less reliable than are management’s prediction about short-run fluctuations in securities prices, which usually are unreliable also. If TAVF’s relatively unhedged position in the Japanese Yen proves to have been a mistake, management will undo it, and the Fund would probably suffer only a small loss.

**Principal Amount or
Number of Shares**

New Positions Acquired

\$70,950,000	USG Municipal Senior Credits (“USG Muni Seniors”)
\$50,000,000	Westpoint Stevens Senior Notes (“Westpoint Stevens Unsecureds”)
397,000 shares	Guoco Group Ltd. Common Stock (“Guoco Common”)

Increases in Existing Positions

250,000 shares	Hutchison Whampoa, Ltd. Common Stock (“Hutchison Whampoa Common”)
100,000 shares	Investor AB Class A Common Shares (“Investor AB Common”)

Positions Eliminated

\$9,000,000	Parmalat Finance BV 6 1/4/05 (“Parmalat Seniors”)
343,149 shares	Electro Scientific Industries, Inc. Common Stock (“Electro Scientific Common”)
204,400 shares	FSI International, Inc. Common Stock (“FSI Common”)

DISCUSSION OF QUARTERLY ACTIVITY

For Chapter 11 purposes, the USG Muni Seniors are equal in seniority to the \$164,094,000 USG Corporate Seniors which TAVF has owned since 2001. It is my belief that when, as and if, asbestos liability matters are resolved, the odds are that both holders of these USG Seniors will receive in cash in a Chapter 11 Reorganization, all principal plus accrued interest, plus the rough equivalent of interest on interest. USG is a very strong, very profitable, very well-financed company. Federal legislation probably will be required to resolve the asbestos problem. No old line manufacturing company from General Motors, Ford and General Electric on down seems exempt from draconian asbestos liabilities. The U.S. Senate seems not too far from agreement on a Trust Fund solution. Such legislation seems more probable for 2005 or 2006 than for 2004. Assuming a one-year case, the Internal Rate of Return (“IRR”) would be about 21% on the USG Muni Seniors at current market, assuming payments in cash equal to the principal amount (or par) plus post-petition interest. Given a two-year case, the IRR would drop to around 15%. There may be a possibility, though, that the USG Muni Seniors would be reinstated, unlike the USG Corporate Seniors which ought to have its claims paid entirely in cash. If reinstated, the holders of USG Muni Seniors would receive their back interest, and probably interest on interest, in cash, and then continue to own the USG Muni Seniors, which would then be performing loans with maturities stretching from 2028 to 2034. If this were to happen, there appears to be a chance that the USG Muni Seniors would trade in post reinstatement markets at premium prices over their principal amounts, albeit that would depend primarily on what interest rates would be in the municipal bond market at that time. The USG Muni Seniors owned by the Fund have an average coupon of about 6%.

Westpoint Stevens Unsecureds are the economic equivalent of an out-of-the-money warrant. This \$1 billion dollar issue had a total market value at the time of



purchase by TAVF of about \$60 million. The small investment by TAVF is a speculation that the Westpoint Stevens Unsecureds will receive some common stock in a Chapter 11 Reorganization and that this company, which owns some of the most popular textile brands in the United States and is increasingly importing merchandise from China, can be made profitable. Westpoint Stevens continues to suffer operating losses. Its revenues in 2003 aggregated \$1.6 billion. Outstanding pre-petition secured debt, which has priority over the Westpoint Stevens Unsecureds, totals \$769 million principal amount.

Third Avenue has been restricting its common stock investments of late to companies which are extremely well financed where the common stocks are selling at meaningful discounts from readily ascertainable net asset values.

Thus, the purchases during the quarter of Guoco Common, Hutchison Whampoa Common and Investor AB Common.

Third Avenue had acquired a toehold position in Parmalat Seniors because, based on our reading of the Deloitte Touche audits, it seemed that many subsidiaries had been quite profitable. This now turns out not to have been the case. The Fund eliminated its Parmalat position. As has been pointed out in previous letters, TAVF has decided to concentrate its high-tech component investments into three common stocks: American Power Conversion Corp., Applied Materials, Inc., and AVX Corp. The sale during the quarter of Electro Scientific Common and FSI Common finished up the Fund's program of dispensing of other high-tech component common stocks.

THE EFFICIENT MARKET HYPOTHESIS AND THIRD AVENUE

The underlying tenet of the Efficient Market Hypothesis ("EMH") is that all markets are like the markets in which Outside Passive Minority Investors ("OPMI") trade, *e.g.*, the New York Stock Exchange and NASDAQ. These OPMI markets very much tend to, and do, achieve instantaneous efficiency. A good definition of EMH is contained in the Fourth Edition of *Corporate Finance* by Ross, Westerfield and Jaffe where it is stated on Page 873, "Efficient market hypothesis (EMH) - The prices of securities fully reflect available information. Investors buying bonds and stocks in an efficient market should expect to obtain an equilibrium rate of return. Firms should expect to receive the 'fair' value (present value) for the securities they sell."

"For Third Avenue, EMH is pure nonsense, even though that view seems to be championed by a substantial majority of finance academics."

For Third Avenue, EMH is pure nonsense, even though that view seems to be championed by a substantial majority of finance academics. At TAVF, we believe there are myriad markets, not just OPMI markets. In addition to OPMI stock markets, there are, *inter alia*: takeover markets, IPO markets, mortgage markets, markets for consensual plans in Chapter 11, markets for management compensation, *etc.* Each different market is governed by different characteristics:

- 1) Some markets tend toward instantaneous efficiency and comport with the view of the world postulated by financial academics such as Ross, Westerfield and Jaffe.
- 2) Some markets tend toward efficiency, but achieve efficiency only slowly, if ever.
- 3) Some markets are inherently inefficient.



Which efficiency, or inefficiency, will characterize a market depends on three variables:

- 1) Who the investor or control person is, and how well financed is that investor or control entity?
- 2) How complex, or simple, is the security being analyzed?
- 3) What is the time horizon of the investor, or the control person?

Markets that tend toward instantaneous efficiency are those where the investor is an OPMI; where the security to be analyzed can be analyzed by reference to a very limited number of computer programmable variables; and where only very short time horizons are involved such as is the case for day trading, or trading using heavy doses of margin borrowing.

Securities prices that tend to achieve instantaneous efficiency include the following:

- 1) Credit instruments without credit risk, *e.g.*, U.S. Treasuries.
- 2) Derivatives such as options, warrants and convertibles.
- 3) Risk Arbitrage – where risk arbitrage is defined as relatively determinate work-outs in relatively determinate periods of time, such as is the case for publicly announced mergers.

In the TAVF portfolio, several securities tend to sell at prices that reflect an instantaneous efficiency. One such security is MONY Common. AXA proposes to acquire all MONY Common at \$31 per share in a transaction scheduled to close in June (a risk arbitrage). Other securities in the TAVF portfolio where instantaneous efficiencies seem to currently exist are holdings of U.S. Treasuries and CIT Senior Notes (both are credit instruments with little, or no, credit risk).

Most of TAVF's investments fit into a category where the tendency toward efficiency might work out in a one to

five year period. These generally are the common stocks of extremely well-financed companies which were acquired at prices that represented substantial discounts from readily ascertainable Net Asset Values ("NAV"). Such common stock investments include holdings in Arch Capital Group, Ltd., Brascan Corp., Capital Southwest Corp., Carver Bancorp, Inc., Catellus Development Corp., Forest City Enterprises, Inc., Guoco Group, Investor AB, Japanese non-life insurance companies, Toyota Industries Corp., and Woronoco Bancorp, Inc.

This tendency toward long-term efficiency for the common stocks of companies acquired at discounts from readily ascertainable NAVs seem to be driven by several alternative factors. First, common stocks may be available at discounts from NAV because the company's current Returns on Equity ("ROE") are poor, or because accounting practices result in a material understatement of economic earnings. Over time, ROEs may improve dramatically (Carver Bancorp, Woronoco, Arch Capital) or the OPMI market might come to appreciate that "true" earnings are far greater than GAAP earnings (Toyota Industries). Second, as a group, these companies tend to be terrific take-over candidates, and prices in takeover markets usually are much higher than in OPMI markets. Finally, with the passage of time, the discounts for NAV may start to narrow (Japanese non-life insurers, Forest City Enterprises, Brascan and Catellus).

If there are any markets that are capricious, *i.e.*, highly inefficient given a five-year point of view, it is the capital markets that corporations seek to access to raise funds from the outside. This long-term capriciousness exists whether these capital markets are credit markets or equity markets. Sometimes interest rates are ultra high; sometimes they are ultra low. Sometimes there are IPO booms for common stocks, and at other times it is impossible, or next to impossible, for corporations to market publicly any new issues of common stock or other junior securities. TAVF loves to invest with managements skilled in taking advantage of this strong



long-term tendency for capital markets to be characterized by gross price inefficiencies.

From the point of view of skilled managements of companies with extremely strong financial positions and who have a three to five year view, periodic access to capital markets is an extremely attractive way to create wealth for the corporation itself and for its grandfathered buy-and-hold shareholders such as the Fund. Here, the management controls the timing of access to capital markets. The companies will access the capital markets only when the business can obtain super attractive prices either for credits or equity. These managements believe strongly that over any five-year period, the capital markets are likely to be capricious, allowing them either to market credit instruments at ultra low fixed rates, usually on a non-recourse basis (Forest City Enterprises, Brascan, Catellus), or allowing them to sell equities, or near equities; or to issue equities in acquisition transactions at a time when prices are overheated (Nabors Industries, Legg Mason). Many of the managements in whose companies TAVF has invested have been past masters at exploiting the gross inefficiencies inherent in capital markets.

The basic problem with academic finance is that it tends to look at markets only from the point of view of OPMIs who are vitally affected by day-to-day price fluctuations.

For TAVF, such an approach seems akin to studying marine biology only by examining kelp and plankton floating on the top of the ocean. At the Fund, management is more interested in learning from the eating habits of sharks, whale, tuna and others beneath the surface, *e.g.*, managements who can take advantage of the long-term, capricious nature of capital markets. What academics do is understandable. They don't pretend to be involved with corporate fundamentals. Rather, they are stock market technician/chartists whose fields of study are prices, markets and market price histories, not corporate nitty gritty and the underlying characteristics of securities. For technician/chartists, there is no question but that the gold standard is to assume instantaneous efficiency. This, however, does not seem to have much to do with what Third Avenue is, and what Third Avenue is trying to do.

I will write you again when the report for the period to end July 31, 2004 is published.

Sincerely yours,

Martin J. Whitman
Chairman of the Board



Third Avenue Small-Cap Value Fund



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

Dear Fellow Shareholders:

At April 30, 2004, the end of the fiscal second quarter, the unaudited net asset value attributable to the 37,650,815 common shares outstanding of the Third Avenue Small-Cap Value Fund ("Small-Cap Value" or the "Fund") was \$19.26 per share, compared with the Fund's unaudited net asset value of \$19.65 per share at January 31, 2004, and an unaudited net asset value at April 30, 2003 of \$13.67 per share, adjusted for a subsequent distribution to shareholders. At May 24, 2004, the unaudited net asset value was \$19.17 per share.

QUARTERLY ACTIVITY*

During the quarter, Small-Cap Value established seven new positions, added to nineteen of its existing positions, eliminated two positions and reduced its holdings in four companies. At April 30, 2004, Small-Cap Value held positions in 69 common stocks, the top 10 positions of which accounted for approximately 23% of the Fund's net assets. Fund shares outstanding rose 12% from the prior quarter, and 32% year over year.

Number of Shares

366,054 shares

107,384 shares

217,800 shares

155,700 shares

271,400 shares

155,000 shares

426,700 shares

New Positions Acquired

Equity Oil Co. Common Stock
("Equity Oil Common")

Hutchinson Technology, Inc.
Common Stock
("Hutchinson Common")

Russ Berrie & Co. Common Stock
("Russ Berrie Common")

St. Mary Land & Exploration Co.
Common Stock ("St. Mary Common")

Superior Industries International, Inc.
Common Stock ("Superior Common")

Tidewater, Inc. Common Stock
("Tidewater Common")

Whiting Petroleum Co. Common Stock
("Whiting Common")

* Portfolio holdings are subject to change without notice. The following is a list of Third Avenue Small-Cap Value Fund's 10 largest holdings, and the percentage of the total net assets each security represented, as of April 30, 2004: Brascan Corp. (Class A), 2.91%; TimberWest Forest Corp., 2.75%; Forest City Enterprises, Inc. (Class A), 2.71%; LNR Property Corp., 2.62%; CommScope, Inc., 2.50%; The St. Joe Company, 2.11%; Trinity Industries, Inc., 2.06%; E-L Financial Corp., Ltd., 2.01%; Electro Scientific Industries, Inc., 1.89%; and Kmart Holding Corp., 1.76%.



Number of Shares or Units	Increases in Existing Positions	Number of Shares or Units	Increase in Existing Position
336,700 shares	Agrium, Inc. Common Stock ("Agrium Common")	2,500 shares	Trinity Industries, Inc. Common Stock ("Trinity Common")
55,000 shares	American Power Conversion Corp. Common Stock ("American Power Common")	55,000 shares	Decreases in Existing Positions Advanced Power Technology, Inc. Common Stock ("APT Common")
63,600 shares	CommScope, Inc. Common Stock ("CommScope Common")	9,000 shares	FSI International, Inc. Common Stock ("FSI Common")
94,300 shares	Cross Country Healthcare, Inc. Common Stock ("Cross Country Common")	50,000 shares	KEMET Corp. Common Stock ("KEMET Common")
57,800 units	Fording Canadian Coal Trust Units ("Fording Units")	119,900 shares	Maxwell Shoe Co., Inc. Common Stock ("Maxwell Shoe Common")
61,467 shares	Herley Industries, Inc. Common Stock ("Herley Common")	376,300 shares	Positions Eliminated CyberOptics Common Stock ("CyberOptics Common")
38,237 shares	Instinet Group, Inc. Common Stock ("Instinet Common")	1,347,400 units	SFK Pulp Fund ("SFK Units")
54,526 shares	JAKKS Pacific, Inc. Common Stock ("JAKKS Common")		
5,000 shares	Leucadia National Corp. Common Stock ("Leucadia Common")		
21,300 shares	Lindsay Manufacturing Co. Common Stock ("Lindsay Common")		
30,000 shares	LNR Property Corp. Common Stock ("LNR Common")		
5,000 shares	PAREXEL International Corp. Common Stock ("PAREXEL Common")		
24,575 shares	Pharmaceutical Product Development, Inc. Common Stock ("PPDI Common")		
395,700 shares	Quanta Services, Inc. Common Stock ("Quanta Common")		
52,700 shares	The St. Joe Co. Common Stock ("St. Joe Common")		
328,500 shares	Sycamore Networks, Inc. Common Stock ("Sycamore Common")		
606,800 units	TimberWest Forest Corp. Units ("TimberWest Units")		
10,000 shares	Trammell Crow Co. Common Stock ("Trammell Crow Common")		

DISCUSSION OF QUARTERLY ACTIVITY

It was a busy quarter as Fund management initiated several new positions, and added to many of the portfolio's existing holdings. Of particular note were the Fund's new positions in energy-related common stocks, expanding to more than 5% of the portfolio's exposure to the sector. Independent oil and gas exploration and production ("E&P") companies, Whiting Petroleum, St. Mary Land and Exploration and Equity Oil all share a number of common attributes. Each is well financed and appears to be conservatively managed. Based on the Fund's cost basis, Fund management believes that it acquired the common stocks at meaningful discounts to Private Market Value (*i.e.*, the value that a reasonable and knowledgeable business person would pay for control of the whole company) and at modest multiples of earnings and cash flow. (Equity Oil has agreed to be acquired by Whiting in a share for share exchange.) One might reasonably ask whether Fund management needs to predict commodity prices in order to invest in this sector. We can't, and we don't try. Even in the absence of a crystal ball, I believe the odds remain stacked in our favor.



Though E&P company results are inextricably tied to oil and gas prices, the great weight of probability would seem to suggest that over the next three to five years, oil and gas prices can stay in a reasonable enough range, on average, (e.g., crude oil between say \$28 to \$45, and natural gas between \$4 to \$6¹) to enable E&P companies to continue to make a nice living, improve their balance sheets and grow their reserves on a per share basis. My reasoning includes the following observations:

1. Oil prices may not be all that high, not at least, on an inflation-adjusted basis; and certainly nothing like they were in the late 1970's/early 1980's. (Prices at the pump for gasoline today are being elevated by constraints in U.S. refining capacity.) Considering crude oil's overall utility and necessity in the U.S.

economy, it seems outright cheap. Compare, for example, the price of a 42-gallon barrel of crude oil at about \$36 to \$40 versus the same measures² of Evian Water[®] and Ben & Jerry's Chunky Monkey[®] ice cream at \$190 and \$1,105, respectively.

2. Supply³ may not be as assured or as secure as many assume. 20% of the world's oil supply comes from 14 fields averaging almost 60 years since discovery. Ghawar, the world's largest oilfield, has accounted for the majority of all Saudi oil produced, but today is vastly depleted. U.S. oil supply peaked in 1970.

Similarly, supplies from other parts of the world (e.g., Iran, Mexico, North Sea, Indonesia, Caspian Sea) have likely peaked, and new supplies from the Former Soviet Union (FSU) are unlikely to offset accelerating declines from other regions. OPEC reserve data is likely unreliable. Technology used in the industry (e.g., 3-D Seismic, horizontal drilling, subsea production, multilateral well completions) seems to have accelerated

decline rates. Recent terrorist attacks on Mid East energy-related facilities, including pipelines and oil terminals, a relatively new development, only highlight the precarious reserve/supply situation. Sources of alternative supply, for example those found in Canada's Athabasca oil sands, hold much promise, but seem unlikely to come at the historical costs to which U.S. consumers have grown accustomed.

“Considering crude oil’s overall utility and necessity in the U.S. economy, it seems outright cheap. Compare, for example, the price of a 42-gallon barrel of crude oil at about \$36 to \$40 versus the same measures of Evian Water[®] and Ben & Jerry’s Chunky Monkey[®] ice cream at \$190 and \$1,105, respectively.”

3. Longer-term demand, worldwide, seems likely to continue to grow at an above-average rate. China's oil use has doubled in the last seven years. Consumption by growing countries like India may follow a similar path.

4. Conventional wisdom in the industry is usually proven wrong, and surprises are more the norm. Few observers, for example, predicted the fallout on oil prices in the late 1980's as automobile fuel efficiency began to soar. Similar “left field” developments may await us in future periods.

¹ At May 17, NYMEX June deliveries for crude oil and natural gas were \$41.55 and \$6.42, respectively.

² Presentation by Arthur Smith of John S. Herold, Inc. (www.herold.com) on April 19, 2004.

³ Data courtesy of Simmons & Co. Int'l, www.simmonsco-intl.com



The Fund's odds of investment success may be enhanced in the case of the E&P companies as a quickly rising tide of mergers and acquisitions continues to wash over the industry worldwide.

Tidewater, Inc. is the world's largest provider of offshore service vessels, serving the offshore energy industry. While a healthy commodity price environment has greatly enhanced the current fortunes of the E&P companies, service providers like Tidewater, ironically, continue to suffer from poor industry economics, largely the result of persistent and massive oversupply in the offshore services industry. Tidewater has a long history of profitability, however, and will be well positioned to the extent its fleet replacement program results in better day rates and fleet utilization, demand for offshore services expands with increased E&P activity, or the services industry "shrinks" itself through attrition or industry consolidation. My sense is that major oil companies, burned by volatile commodity prices in the past, have largely under-invested in exploration and production activities during the past five to 10 years and may find themselves under pressure to expand their capital budgets in coming years. Shares were purchased at a slight premium to GAAP book value, and at a very high multiple of currently depressed earnings.

Superior Industries is one of the largest suppliers of cast and forged aluminum wheels to the leading Original Equipment Manufacturers ("OEM") of automobiles and light trucks. Many years of uninterrupted profitability and a cash rich, debt-free balance sheet contrast with a business that today appears to be suffering from heightened competitive pressures. Shares were purchased at approximately 1.5x GAAP book value and 11x -12x trailing after-tax earnings.

Russ Berrie designs and markets gift and home decor items, toys, as well as various products for infants. Recent marketing and merchandising errors have put pressure on

Russ's business, and will likely have adverse effects on the company's near-term earnings. Similarly, independent retail stores, the company's historic customer base, may continue to lose share to the mass merchants (*e.g.*, Wal-Mart, Kmart). Nevertheless, Russ boasts a number of redeeming qualities, including a debt-free balance sheet, and attractive cash flow generation characteristics. The company has announced new management, in the wake of the founder's death, and has announced that it will return excess cash to shareholders via an extraordinary \$7 per share dividend. Shares were purchased at approximately 12x - 13x trailing earnings and 1.4x GAAP book value.

Hutchinson Technologies manufactures suspension assemblies⁴ and related components for disk drives. The company appears to hold an enviable and defensible competitive position, and should benefit in coming years to the extent disk drives continue to serve as a mainstream storage medium. Nevertheless, business conditions in the coming year are likely to be difficult. Coincident with a large capital-spending plan, inventories at the customer level have grown significantly, suggesting that this year's reported earnings will be weak. A modest position was purchased with a cost basis equating to 1.5x GAAP book value and to 10x pre-tax earnings.

In addition to the above-mentioned new positions, Fund management also added meaningfully to existing positions in TimberWest Units, Sycamore Common, and Quanta Common. The Fund's position in Maxwell Shoe Common was partially sold in response to a \$20 per share tender offer by Jones Apparel (NYSE: JNY), subsequent to which Maxwell's shares continued to trade at a \$2 to \$3 premium to the Jones bid.

PORTFOLIO COMMENTS

At present, the Fund sits on a historically high level of cash and cash equivalents. The origins of this unusual

⁴ Functionally, a suspension assembly is roughly analogous to the arm of a record player—on a tiny scale—and holds the recording head above the rotating disk.



cash hoard are multi-faceted. The Fund continues to attract new inflows, has parted with a large portion of its tech holdings in recent quarters, and has realized proceeds from shares sold in two merger and acquisition-related securities. As a result, nearly one quarter of the Fund's assets today sit in cash or short-term U.S. treasuries. I acknowledge this is sort of a painful position to be in, but I also fully expect it to be a temporary one. Rather than plant a crop that – at best – could only produce mediocre yields, however, I would rather let the field lie temporarily fallow until the right thing comes along, and remind myself that patience is critical to successful long-term investing. That so many investor/speculators today will dismiss cash as “trash” tells me it is probably the best thing to own when we are not finding investments that meet our criteria.

I look forward to writing you again in the third fiscal quarter ended July 31, 2004.

Sincerely,

A handwritten signature in black ink, reading "Curtis R. Jensen". The signature is written in a cursive, flowing style.

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



Third Avenue Real Estate Value Fund



MICHAEL H. WINER
PORTFOLIO MANAGER OF THIRD AVENUE
REAL ESTATE VALUE FUND

Dear Fellow Shareholders:

At April 30, 2004, the end of the second fiscal quarter of 2004, the unaudited net asset value attributable to the 50,057,346 shares outstanding of the Third Avenue Real Estate Value Fund (the "Fund") was \$21.53 per share. This compares with an unaudited net asset value of \$22.11 per share at January 31, 2004, and an unaudited net asset value of \$16.25 per share at April 30, 2003, adjusted for subsequent distribution to shareholders. At May 24, 2004, the unaudited net asset value was \$21.55 per share.

QUARTERLY ACTIVITY*

During the second quarter of fiscal 2004, the Fund's outstanding shares increased to 50.1 million shares from 41.9 million shares – an increase of 19.6%; net assets increased to \$1.08 billion from \$927 million – an increase of 16.5%; and net asset value per share decreased to \$21.53 from \$22.11 – a decrease of 2.6%. Cash and short-term investments at quarter-end totaled 13.3% of net assets, compared to 24.1% at the end of the last fiscal

quarter. The following summarizes the Fund's investment activity during the quarter:

Principal Amount/Units, Number of Shares or Warrants	New Positions Acquired
\$400,000 notes	Forest City Enterprises 7.375% \$25 par Senior Notes due 2/1/34 ("Forest City Senior Notes")
\$10,000,000	Winn-Dixie 8.181% Pass-Through Trust Certificates due 9/1/24 ("Winn-Dixie Notes")
1,708,582 shares	Brascan Corp. Class A Common Stock ("Brascan Common")
100,000 shares	Capital Lease Funding, Inc. Common Stock ("Capital Lease Common")
1,256,281 warrants	Frank's Nursery & Crafts, Inc. Common Stock Warrants, \$1.99 Strike Price ("Franks \$1.99 Warrants")

* Portfolio holdings are subject to change without notice. The following is a list of Third Avenue Real Estate Value Fund's 10 largest holdings, and the percentage of the total net assets each security represented, as of April 30, 2004: The St. Joe Company, 9.19%; LNR Property Corp., 8.92%; Forest City Enterprises, Inc. (Class A), 8.68%; Catellus Development Corp., 6.77%; Brascan Corp., 5.36%; Brookfield Properties Corp., 4.55%; Vornado Realty Trust, 4.45%; ProLogis, 3.90%; PS Business Parks, Inc., 3.80%; and Trammell Crow Co., 2.58%.



Principal Amount, Number of Shares, Warrants or Contracts	New Positions Acquired (continued)	Number of Shares or Warrants	Increases in Existing Positions (continued)
108,000 shares	Sterling Centrecorp, Inc. Common Stock ("Sterling Common")	392,500 shares	Forest City Enterprises, Inc. Class A Common Stock ("Forest City Common")
108,000 warrants	Sterling Centrecorp, Inc. Common Stock Warrants ("Sterling Warrants")	1,186 shares	Frank's Nursery & Crafts, Inc. Common Stock ("Frank's Common")
500 contracts	Winn-Dixie Stores Inc. \$5.00 Put Option, expires 1/21/06 ("Winn-Dixie \$5.00 Puts")	12,872 warrants	Frank's Nursery & Crafts, Inc. Common Stock Warrants, \$1.14 Strike Price ("Frank's \$1.14 Warrants")
1,000 contracts	Winn-Dixie Stores Inc. \$2.50 Put Option, expires 1/21/06 ("Winn-Dixie \$2.50 Puts")	116,900 shares	Koger Equity, Inc. Common Stock ("Koger Common")
125,000 shares	RAIT Investment Trust 7.75% Preferred Stock ("RAIT Preferred")	360,800 shares	LNR Property Corp. Common Stock ("LNR Common")
	Increases in Existing Positions	289,100 shares	One Liberty Properties, Inc. Common Stock ("One Liberty Common")
\$125,000	Frank's Nursery & Crafts, Inc. 10.15% First Mortgage Revolving Credit Loan due 5/21/05 ("Frank's Revolver")	425,900 shares	ProLogis Common Stock ("ProLogis Common")
550,800 shares	Acadia Realty Trust Common Stock ("Acadia Common")	431,500 shares	PS Business Parks, Inc. Common Stock ("PSB Common")
814,500 shares	American Financial Realty Trust Common Stock ("American Financial Common")	715,000 shares	The St. Joe Co. Common Stock ("St. Joe Common")
70,200 shares	Anthracite Capital, Inc. Common Stock ("Anthracite Common")	179,550 shares	Trammell Crow Co. Common Stock ("Trammell Crow Common")
956,100 shares	Catellus Development Corp. Common Stock ("Catellus Common")	486,400 shares	Vornado Realty Trust Common Stock ("Vornado Common")
226,500 shares	Falcon Financial Investment Trust Common Stock ("Falcon Common")	288,800 shares	Decrease in Existing Position Brookfield Properties Corp. Common Stock ("Brookfield Common")
724,800 shares	First Capital Realty, Inc. Common Stock ("First Capital Common")	71,500 shares	Positions Eliminated BPO Properties Ltd. Common Stock ("BPO Common")
376,300 shares	First Potomac Realty Trust Common Stock ("First Potomac Common")	253,800 shares	Butler Manufacturing, Inc. Common Stock ("Butler Common")
		100,000 shares	Capital Lease Funding, Inc. Common Stock ("Capital Lease Common")



DISCUSSION OF QUARTERLY ACTIVITY

During the quarter ended April 30, 2004, the Fund initiated positions in the common stocks of two Canadian companies (Brascan Common and Sterling Common), the senior notes of Forest City Enterprises, and in the lease pass-through notes of a regional grocery retailer. The Fund also purchased the common stock of a real estate investment trust ("REIT") in its initial public offering ("IPO") and subsequently sold the shares. Additionally, the Fund increased its positions in many of its existing holdings as opportunities arose due to significant price fluctuations in many real estate company common stocks. While the Fund began the quarter with approximately 24.1% in cash and short-term investments, and there were substantial net cash inflows (approximately \$184 million), cash and short-term investments at the end of the quarter totaled 13.3% of net assets.

Brascan Corporation is a Toronto-based asset management company with a focus on real estate and power generation. Brascan's real estate operations consist of commercial properties, predominantly office properties, residential properties, income producing land, development properties and real estate service activities. The majority of Brascan's office property portfolio is owned through its subsidiary, Brookfield Properties Corp., which is a publicly-traded company and whose common stock is a significant holding in the Fund. Brascan's U.S. residential properties and homebuilding operations are owned through its subsidiary, Brookfield Homes, Inc., which is also publicly traded and a holding in the Fund. Brascan's power generating operations are predominantly hydroelectric facilities located on river systems in North America. Most of Brascan's power generating revenue is subject to long-term bilateral and fixed-price power sales contracts or regulated rate-base arrangements. Due to the low variable cost of hydroelectric power and the long-term sales contracts (average 13 years with credit-worthy counter parties), Brascan's power generation operations have very similar characteristics to operating high quality commercial real estate. On a consolidated basis,

approximately 52% and 13% of Brascan's assets are in real estate and power generation, respectively. Approximately 57% and 19% of Brascan's operating cash flow is from real estate and power generation, respectively. In addition to real estate and power generation, Brascan has investments in several natural resource companies involved in base metals and forest products. Brascan has an exceptionally strong balance sheet, with the majority of its debt being non-recourse, property-specific debt. The Fund has been acquiring Brascan Common at a significant discount to estimated net asset value. While acquiring Brascan Common, the Fund reduced its position in Brookfield Common.

Sterling Centrecorp is a Toronto-based real estate operating company involved in the management, development, redevelopment and investment in retail and commercial real estate in Canada and the United States. The Fund, along with another investor, agreed to invest up to Cdn. \$20 million (the Fund's investment is limited to Cdn. \$6 million) to assist the company in funding a tender offer and/or exchange offer to holders of existing debentures that mature in December 2004. The Fund will purchase new convertible debentures issued by the company, and the company will use the proceeds to pay off those existing debenture holders accepting the tender offer at 80% of face amount. In consideration for committing to fund the tender offer, the Fund received 108,000 shares of Sterling Common and warrants to purchase an additional 108,000 shares of Sterling Common at Cdn. \$2.50 per share.

Winn-Dixie Stores, Inc. is one of the nation's largest grocery retailers, with over 1,000 stores located primarily in the Southeastern United States. Winn-Dixie has experienced increased competition from Wal-Mart, resulting in reduced market share, lower comparable store sales and shrinking margins. Based on Winn-Dixie's current financial condition, there appears to be a good possibility that the company will ultimately have to file for bankruptcy protection. The Fund acquired \$10 million face amount of Winn-Dixie Notes at about 75%



of par. The Notes are secured by first mortgages on warehouse and manufacturing facilities that are leased to Winn-Dixie. Fund management estimated that in the event Winn-Dixie does not survive as a going concern, the liquidation value of the collateral would not fully cover the Fund's purchase price of the Notes. To protect the Fund's estimated downside in a liquidation, the Fund purchased long-term put options on Winn-Dixie common stock. Fund management expects that if Winn-Dixie files for bankruptcy protection, it will be able to reorganize as a smaller company, in which event the Notes would likely have substantial upside. In the meantime, the Fund has a performing loan with a current yield of approximately 11%.

The Fund purchased \$400,000 Forest City Senior Unsecured Notes (\$25 par value), with a coupon of 7.375%. Forest City Enterprises has a very solid balance sheet, and Forest City Common is one of the Fund's largest holdings. Forest City Senior Notes seem very safe and should generate a decent risk-adjusted yield. The Fund also purchased 100,000 shares of Capital Lease Funding, Inc. Common Stock in the IPO. Capital Lease Funding is a REIT that is focused on financing and investing in commercial real estate that is net leased primarily to single tenants with investment grade credit ratings. The IPO was significantly oversubscribed, and the Fund only received a fraction of the shares it requested. The stock opened for trading at a substantial premium to the Fund's purchase price. Since the Fund only had an insignificant position and it was unlikely it would buy more at the inflated price, the Fund sold its shares at a 25% profit.

Butler Manufacturing was acquired in an all-cash acquisition for \$22.50 per share. Fund management

opposed the transaction and encouraged Butler management to delay the shareholder meeting and vote in order to consider an offer from another company that submitted what appeared to be a superior acquisition proposal (albeit late in the process). Fund management believes that the company's board of directors agreed to sell the company for less than its full value. In this regard, the Fund dissented from the merger and has taken steps to demand an appraisal of its shares in accordance with Delaware statutory procedures. As a result, during the

period in which the Fund intends to pursue its appraisal rights in Delaware Chancery Court, the Fund will not have the proceeds from the merger.

The Fund eliminated its position in BPO Properties Common. After the company announced a special cash dividend of \$15 per share, BPO Common began trading at a price which represented a significant premium to net asset value. The Fund realized a gain of approximately 43%.

PATIENCE PAYS OFF

As noted above, the Fund began the quarter with a substantial amount of cash. The large cash balance was the result of a combination of significant cash inflows and stock prices that didn't look very attractive – especially REIT common stocks. The Morgan Stanley REIT Index peaked on April 1st, with a year-to-date total return of 13%. As of April 30th, the Morgan Stanley REIT Index was down 4.6% year-to-date, representing a 15.6% correction since April 1st.

The total return on REIT stocks from April 1, 2003 to April 1, 2004 was approximately 50%. I attribute much of this performance to funds flows. The equity market

“The recent prospect of higher interest rates, economic expansion and job growth should bode well for real estate and, ultimately, the common stocks of real estate and real estate related companies.”



capitalization for all publicly traded REITs, as of April 30, 2004, was \$223 billion¹. It is easy to understand why a mere few billion dollars of funds flows into REIT stocks can have a dramatic impact on stock prices. During 2003, real estate mutual funds had total cash inflows of \$4.6 billion²; and during the first quarter of 2004, net inflows totaled \$3.2 billion². While real estate mutual funds only account for total net assets of \$26 billion³, as of April 30, 2004, funds flows into mutual funds are a good proxy for investor sentiment towards REIT common stocks. In April 2004, real estate mutual funds had net outflows of \$446 million² – a significant turn-around, and the first negative month since December 2002.

Since funds flows can apparently have a very dramatic impact on stock prices, the obvious question is not why are stock prices down, but why the big turnaround in funds flows? The simple answer is fear of rising interest rates. Over the last five years, REIT dividend yields have been fairly correlated with long-term bond yields. Since January 2000, the spread between REIT dividend yields and 10-year U.S. Treasuries has averaged 2.34%. At March 31, 2004, the spread was only 1.36%, with REITs yielding an all-time low of 5.2%. With the prospects of rising interest rates (both short-term and long-term) as a result of improving economic conditions and a positive jobs growth report, REIT investors apparently decided that the run was over and it was time for a correction. In what seemed to be a knee-jerk reaction, REIT stock prices fell nearly 16% in one month and REIT dividend yields increased to 6.2%.

It is interesting to note that the Morgan Stanley REIT Index is at approximately the same level today as it was in October 2003, when the economic outlook and real estate fundamentals appeared more uncertain. The recent prospect of higher interest rates, economic expansion and job growth should bode well for real estate and ultimately the common stocks of real estate and real estate related

companies. This is not to say that I think the correction was unwarranted. As evidenced by the Fund's significant cash build-up through March, Fund management was comfortable patiently waiting on the sidelines instead of getting caught up in the buying frenzy. Third Avenue Management is known for buying common stocks of companies at a discount to net asset value, when the near-term outlook for those companies or their respective industries is generally not good. The real estate sector today is characterized by opportunities to buy stocks at a discount in a market where the near-term outlook actually looks very promising. This is often the case with real estate stocks. During 1998 and 1999, real estate fundamentals were as strong as they had been in over 10 years, yet real estate stocks were out of favor during this period, primarily because of the tech boom. After the tech bubble burst in early 2000 and the economy began to sag, real estate fundamentals also weakened. Over the last four years, real estate stocks outperformed most sectors, despite the relatively poor fundamentals. Once again, real estate fundamentals are improving, but it appears that real estate stocks may be in for another uncertain period - which is fine with us, in that we expect to see plenty of buying opportunities that should make excellent long-term investments.

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

Sincerely,

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

¹ National Association of Real Estate Investment Trusts (NAREIT)

² Deutsche Bank Securities

³ Realty Stock Review



Third Avenue International Value Fund



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

Dear Fellow Shareholders:

At April 30, 2004, the unaudited net asset value attributable to the 15,003,465 shares outstanding of the Third Avenue International Value Fund (the "Fund") was \$14.99 per share, compared with the Fund's unaudited net asset value at January 31, 2004 of \$14.85 per share, and an unaudited net asset value of \$9.64 per share at April 30, 2003, adjusted for a subsequent distribution to shareholders. At May 24, 2004, the unaudited net asset value was \$14.82 per share.

QUARTERLY ACTIVITY*

In the most recent quarter of operations, the Fund established one new position, added to positions in the common stocks (or units) of 19 companies, and eliminated its holdings in the units of one company.

Number of Shares	New Position Acquired
375,000 shares	Aker Kvaerner ASA Common Stock ("A-K Common")
79,900 shares	Increases in Existing Positions Asatsu DK Common Stock ("Asatsu Common")
200,400 shares	Agrium, Inc. Common Stock ("Agrium Common")
3,031,000 shares	Boardroom Ltd. Common Stock ("Boardroom Common")
100,000 shares	BRIT Insurance Holdings plc Common Stock ("BRIT Common")
75,000 shares	Canfor Corporation Common Stock ("Canfor Common")
13,961,000 shares	Chuan Hup Holdings Ltd. Common Stock ("C H Common")
47,508 shares	Cresud SACIFYA Common Stock ("Cresud Common")

* Portfolio holdings are subject to change without notice. The following is a list of Third Avenue International Value Fund's 10 largest holdings, and the percentage of the total net assets each security represented, as of April 30, 2004: Tranz Rail Holdings Ltd., 3.95%; Oslo Bors Holding ASA, 3.33%; Canfor Corp., 3.05%; Ganger Rolf ASA, 2.89%; Aker Kvaerner ASA, 2.77%; Chuan Hup Holdings, Ltd., 2.65%; Compagnie Generale de Geophysique SA, 2.53%; Asatsu-DK, Inc., 2.28%; Smedvig ASA Class A, 2.27%; and Ichiyoshi Securities Co., Ltd., 2.18%.



Number of Shares or Units	Increases in Existing Positions (continued)
2,130,000 shares	Del Monte Pacific, Ltd. Common Stock ("Del Monte Common")
23,800 shares	Dundee Precious Metals Inc. Common Stock ("Dundee Common")
25,400 shares	Farstad Shipping ASA Common Stock ("Farstad Common")
60,000 shares	Fomento de Construccions y Contratadas SA Common Stock ("FCC Common")
5,000,000 shares	Hotung Investment Holdings Ltd. Common Stock ("Hotung Common")
164,400 shares	Hutchison Whampoa Common Stock ("Hutchison Common")
30,000 shares	Noranda Inc. Common Stock ("Noranda Common")
74,700 shares	Oslo Bors Holding ASA Common Stock ("Oslo Bors Common")
2,285,522 shares	Rubicon Ltd. Common Stock ("Rubicon Common")
25,000 shares	Smedvig ASA Common Stock ("Smedvig Common")
213,566 shares	Telecom Corp. of New Zealand Common Stock ("Telecom Common")
736,500 shares	Tranz Rail Holdings Ltd. Common Stock ("Tranz Rail Common")
	Position Eliminated
378,900 units	SFK Pulp Fund Units ("SFK Units")

REVIEW OF QUARTERLY ACTIVITY

Purchase

The Fund's single new purchase this quarter was Aker Kvaerner ASA ("A-K") Common. A-K was a spin off

from a larger Norwegian company, which raised additional equity capital as a part of its initial listing as a stand-alone entity. A-K operates in two broadly defined business areas: the Oil & Gas business area which is a major supplier of offshore oil and gas installations and associated services; and the Engineering and Construction business area which is a major supplier of design, engineering, project management, procurement and construction services worldwide, to industries such as pulp and paper, metals mining, and power generation. In some of the areas where it provides services, A-K is one of the small number of firms with technical expertise and a financial ability to undertake some of these projects. This is in part due to consolidation among its customers, which was accompanied by a period of reduced levels of spending, which in turn has led to consolidation amongst the companies operating in a number of its segments.

The attractions of these shares include a relatively modest valuation (a single digit multiple of operating earnings) for a company with a dominant position in a number of the segments where it operates. In addition, the balance sheet quality has been materially improved by the equity issue done at the time of its listing. While projections of future prospects is a hazardous exercise, especially for a company with as disparate a group of businesses as A-K, the portents appear to be encouraging, with a number of the company's businesses showing signs of increased order intake, albeit from low levels. Were this improvement to be a short-lived phenomenon, the equity raised by the company should serve it well in poorer times.

RESOURCE CONVERSION

Two of the Fund's holdings have each initiated processes, which might potentially result in the realization of some of the values inherent in their asset base, and could have



the result of changing materially the nature of the business activities in which they are currently engaged.

Dundee Precious Metals Inc. (“Dundee”), when purchased, was a Canadian-listed closed-end fund, which held equity securities issued by precious metals companies. The attractions of this investment included some of the undervalued securities it held, the discount at which it traded in relation to its net asset value per share (“NAV”) and a hands-on investment style. In keeping with this far from passive investment approach, Dundee, having recently identified an attractive gold mining company with assets in Bulgaria, bought it in a receivership proceeding and has decided to increasingly focus its investable funds and efforts in the development of this business. To that end, Dundee is converting from an investment company to an operating company and will, in due course, begin liquidating its portfolio of equity holdings.

Rubicon Ltd. (“Rubicon”) is a New Zealand-listed company whose principal asset is a roughly 20% holding in Tenon, Ltd. (“Tenon”), previously known as Fletcher Forest, Ltd. Tenon’s principal asset comprised high quality plantations of Radiata Pine, one of the largest of their kind in the southern hemisphere. The Fund purchased Rubicon at a discount to its NAV, which valued the holding in Tenon at market prices. With the market price of Tenon itself at a discount to its NAV – Rubicon was therefore “doubly cheap”. Tenon has now moved to liquidate its plantation forests in two stages, with the bulk of the sale proceeds being distributed to the shareholders – Rubicon being one of them. The remaining downstream wood processing and wood products distribution businesses will constitute the continuing businesses of Tenon. The first stage of the liquidation (and the associated distribution) has been completed, with the completion of the second stage

currently expected during the third quarter of this calendar year.

Rubicon has now moved to bid for control of Tenon (at what appears to be an unusually attractive valuation), using the cash received from the above-noted distributions. Three outcomes appear possible:

- 1) the bid succeeds, and Rubicon becomes the majority shareholder of an operating company; or
- 2) the bid fails, for valuation reasons, as increasingly appears likely; or
- 3) the bid flushes out another buyer (*e.g.*, an industry participant).

What is clear, however, is that a significant portion of the discount to NAV at the level of Tenon is in the process of being eliminated, both through the liquidation of the forest assets and putting the residual assets “into play”. In the latter two outcomes, Rubicon’s principal asset will be cash. The ultimate disposition of this cash is an unknown, as is the fate of Rubicon itself, since it will largely be a cash-holding shell at that point – with liquidation of the company being a possibility.

THE FUND’S INVESTMENTS IN NATURAL RESOURCES-RELATED BUSINESSES

The Fund has, since its early days, been an investor in securities of natural resource-related companies – motivated by the availability of securities with characteristics we find attractive and meet our “safe and cheap*” criteria.

These resource-related investments have tended to span a wide variety of companies in a number of business areas ranging from agriculture and forest products companies, to oil service companies and so on. There is even considerable heterogeneity within each industry grouping, amongst the companies, their businesses and

* Safe means the companies have strong finances, competent management and an understandable business. Cheap means that we can buy the securities for significantly less than what a private buyer might pay for control of the business.



usually even the outcomes of the various investments. For example, the subheading of Agriculture includes a disparate group of companies comprising: Agrium Inc. – a Canadian fertilizer producer; Cresud SACIFYA – an Argentinian farm land owning company; and Del Monte Pacific Ltd. – a Philippines-based producer of pineapples and other fruit-based products. While each of these securities met our basic investment criteria, there were stock-specific criteria, usually relating to the underlying businesses, that led to the inclusion of each security in the portfolio.

This is to say that there is no overarching “theme” that underlies these investments, even within industry groups, be it assumptions relating to the growth of Chinese and/or Indian demand for natural resources as a result of their economic development or the “Club of Rome” type forecasts of the inevitability of looming shortages as we deplete our natural resources or other macroeconomic expectations (*e.g.*, a depreciating dollar, higher inflation, *etc.*). Nor have these investments been purchased as a short-term “play” to capitalize on moves in resource prices. Such an activity would be the domain of short-term traders of commodities or stocks, not the Fund.

That said, there have been some intriguing elements which recur among some of these investments. For example:

1) Long periods of poor pricing have, in some cases, resulted in a consolidation among the commodity producers and often amongst their suppliers of input – with implications for improved prospects for pricing power and future profitability. For example, one of the

Fund’s holdings, Fording Canadian Coal Trust, is the second largest participant in the global metallurgical coal market, where the top four suppliers provide 70% of the supplies. This is a consequence of more than a decade of poor pricing, which led to the closure of many mines world-wide. Closer to home, consolidation followed years of attrition in the ranks of the Canadian metallurgical coal producers with the result that there is now effectively only one producer—Fording. In another industry, the worldwide market for sensors used in seismic surveys conducted by (or for) oil and gas companies is now effectively dominated by two suppliers, one of which is a subsidiary of Compagnie Generale de Geophysique SA (another of the Fund’s

“Long periods of poor pricing have, in some cases, resulted in a consolidation among the commodity producers and often amongst their suppliers of input – with implications for improved prospects for pricing power and future profitability.”

holdings), in this case a consequence of technological expertise and balance sheet strength of the companies that have come through the downturn. Yet another example is the dominance by Imerys SA of certain segments of a business as prosaic as clay used as fillers for paper. This position was assembled in great part through acquisition of businesses worldwide during periods when the producers of these clays were experiencing cyclically depressed pricing. This has allowed it to raise prices on most occasions when **its** raw material costs increased, hardly what one would expect of a traditional price-taking commodity provider.

2) Similarly, in a number of cases, long periods of poor (and volatile) returns have added to a reluctance among producers to engage in what are perceived to be “risky” early stage exploration activities – a



phenomenon particularly visible not only among some of the so-called “super major” oil companies, who have increasingly chosen to substitute political risk for exploration risk in their headlong rush into Russia. This is also true in a number of areas of metals mining. At some point, the diminution of the known (and economically accessible) sources of supply should result in improved rates of return for such an activity, with increased demand for services companies held by the Fund such as Smedvig ASA (in drilling for oil offshore), or Aker Kvaerner ASA (in mine engineering and construction, for example), *et al.*

The profitability of a number of natural resource companies and the pricing of their securities (including some of those we currently hold) is no doubt affected *inter alia* by economic fluctuations in consuming countries, of which unfolding events in China and the United States have preoccupied investors of late. We are generally indifferent to these, except in so far as they provided us with opportunities to purchase (and occasionally sell) securities of the companies of interest to us. As always, we remain watchful for investment opportunities that such events might present.

GEOGRAPHICAL DISTRIBUTION OF INVESTMENTS

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

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

<u>Country</u>	<u>%</u>
Norway	13.23
Canada	11.79
New Zealand	7.94
Singapore	7.25
Japan	6.49
France	3.96
Hong Kong	3.75
United Kingdom	2.85
Spain	1.78
Panama	1.65
Argentina	0.97
Sweden	0.78
Switzerland	<u>0.53</u>
Equities Total	62.97
Foreign Government Debt	6.44
Cash & Other	<u>30.59</u>
Total	<u>100.00</u>

Portfolio holdings are subject to change without notice.

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

I look forward to writing to you again when we publish our next quarterly report for the period ended July 31, 2004.

Sincerely,

Amit Wadhwaney
Portfolio Manager,
Third Avenue International Value Fund

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Transfer Agent

PFPC Inc.
P.O. Box 9802
Providence, RI 02940
(610) 239-4600
(800) 443-1021 (toll-free)

Investment Adviser

Third Avenue Management LLC
622 Third Avenue
New York, NY 10017

Independent Auditors

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

Custodian

Custodial Trust Company
101 Carnegie Center
Princeton, NJ 08540



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