Intrepid Capital Funds

the constant pursuit of value

INTREPID CAPITAL FUND

2ND QUARTER 2016 COMMENTARY

2Q 2016

JUNE 30, 2016

PERFORMANCE

		Total Return			Average Annualized Total Returns as of June 30, 2016			
	Inception Date	Qtr.	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Intrepid Capital Fund - Inv.	1/03/05	5.69%	8.09%	-0.41%	5.15%	5.94%	7.44%	6.58%
Intrepid Capital Fund - Inst.	4/30/10	5.76%	8.22%	-0.14%	5.43%	6.21%	-	6.59%
S&P 500 Index		2.46%	3.84%	3.99%	11.66%	12.10%	7.42%	7.20%^
Russell 2000 Index		3.79%	2.22%	-6.73%	7.09%	8.35%	6.20%	6.67%^
BAML HY Master II Index		5.88%	9.32%	1.71%	4.18%	5.71%	7.44%	6.96%^
Barclays US Aggregate Bond Index		2.21%	5.31%	6.00%	4.06%	3.76%	5.13%	4.60%^

^Since Inception returns are as of the fund's Investor Class Inception date. Since the Inception date of the Institutional, the annualized return of the S&P 500 Index is 12.05%, Russell 2000 Index is 9.49%, BAML High Yield Master II Index is 6.66%, and Barclays US Aggregate Bond Index is 4.08%.

Performance data quoted represents past performance and does not guarantee future results. *Investment returns and principal value will fluctuate, and when sold, may be worth more or less than their original cost. Performance current to the most recent month-end may be lower or higher than the performance quoted and can be obtained by calling 866-996-FUND. The Fund imposes a 2% redemption fee on shares held for 30 days or less. Performance data does not reflect the redemption fee. If it had, returns would be reduced.*

Per the prospectus, the Fund's annual operating expenses (gross) for the Investor Share Class is 1.42% and for the Institutional Share Class is 1.17%. The Fund's Advisor has contractually agreed to waive a portion of its fees and/or reimburse expenses such that the total operating expense (net) is 1.40% and 1.15% through 1/31/17, respectively. Otherwise, performance shown would have been lower.

July 1, 2016

"Keep your eye on the ball and hit 'em where they ain't."

— Willie Keeler, MLB player (1892-1910)
& Hall of Fame inductee

Dear Friends and Clients,

We are pleased to announce that the Intrepid Capital Fund (the "Fund") increased 5.69% for the quarter ended June 30, 2016, comparing favorably against the various all-equity indices. For the same period, the Russell 2000 Index, which consists of smaller capitalization domestic stocks, and the S&P 500 Index, a capitalization-weighted index of larger U.S. companies, returned 3.79% and 2.46%, respectively. The BAML High Yield Master II Index, which consists of high yield bonds, returned 5.88% for the same period.

As we have mentioned many times, "bankers get to eat first!" By that we mean that a bond represents a superior claim on the cash flows of a business or government entity (e.g. Puerto Rico). Equity shareholders accept a junior position in the food chain in exchange for potentially higher returns, but occasionally there are cases, such as our current investment in the notes of EZCORP, where a position higher in the capital structure offers potential returns equal to or greater than those of an equity stake. This happened to be the case for bondholders in aggregate through the first half of the year, as bonds have had better absolute and risk-adjusted results than most equity shareholders. The Barclays US Aggregate Bond Index, a measure of investment grade bonds, is up 5.31%, year-to-date, and high yield bonds as measured by the BAML High Yield Master II Index have done even better at 9.32%. By contrast, equity indices like the S&P 500 and Russell 2000 have only seen 2-4% increases, meaning incremental risk-taking by investors in equities was largely unrewarded as central bankers continued their various methods of interest rate suppression.

While our central bankers (Federal Reserve) haven't tried out negative interest rates on U.S. depositors yet, as Japan and various European central banks have, we do have two presidential candidates with nothing more than retread policies. One is advocating for more of the same economic agenda that has resulted in negative inflation-adjusted wage growth for the average household over the last eight years, coupled with a record low labor force participation rate. The other wants a wall separating the U.S. from one major trading partner (and paid for by that partner!) and tariffs imposed on another. Pick none of the above.

Top Ten Holdings	(% OF NET ASSETS)
EZCORP, Inc., 06/15/2019, 2.125%	4.2%
Berkshire Hathaway, Inc. - Class B	3.9%
Royal Mail PLC	3.9%
Tetra Tech, Inc.	3.6%
Corus Entertainment, Inc. - Class B	3.5%
Leucadia National Corp.	2.8%
Pitney Bowes Intl Pfd Stock, 6.125%	2.7%
Oaktree Capital Group LLC	2.7%
American Science & Engineering, Inc.	2.6%
Teradata Corp.	2.5%

Top ten holdings are as of June 30, 2016. Fund holdings are subject to change and are not recommendations to buy or sell any security.

We need better policy. In fact, we should demand better policy as we are the ones paying for it and the politicians are, at least in theory, the ones working for us. Our country has plentiful resources and hard-working people, coupled with deep and highly developed capital markets. It's debatable how quickly our economy needs to grow if we are to pay our debt and the entitlements both parties have promised (Social Security, Medicare, Medicaid, etc.), but the magic number is much higher than the anemic 1.76% annual real GDP growth we've experienced since 2009. Taxes can be raised, but at some point high taxes start to discourage economic production and drive rational taxpayers to take drastic actions, like the case of Facebook co-founder Eduardo Saverin, who renounced his citizenship and moved from California to Singapore prior to Facebook's successful IPO to reduce his capital gains taxes. Next time you see a politician, and certainly before writing him or her a check, ask "What are you going to do to make our economy grow faster?"

We have endured the first half of the year, despite all the gyrations, starting with a drawdown into early February due to the plunging price of oil, and more recently with the surprising outcome of the U.K. deciding to leave the European Union, aka Brexit. We feel good about where the Fund's performance is year-to-date with an increase of 8.09%. This has confirmed to us once again, that if you don't want the results everyone else is getting, you'd better try something else.

The world has shifted in a significant way toward "passive" investing, where portfolios are constructed to mimic an index that serves as a proxy for the whole market. This strategy has blossomed in the low volatility world in which equity investors have found themselves for the last seven years, courtesy of central bank rate suppression policies. I think many investors are making a rational choice in indexing, if the alternative is an "actively managed" portfolio that largely apes an index but charges 100 basis points more for the privilege. However, many investors who converted to passive strategies simply because they saw the market going up and didn't want to miss out may be rethinking their decision as the previously soaring equity markets have largely stalled since the end of Quantative Easing (QE) in October 2014. From October 31, 2014 to June 30, 2016, the S&P 500 (large caps) and Russell 2000 (small caps) have had annualized returns of only 4.62% and 0.34%, respectively, and have seen temporary drawdowns of 12-20%. Our intent is not to bash passive investing as a concept, but to note that indexing tends to be very popular on the way up and equally as unpopular on the way down. Before switching to an index-based portfolio, we believe every investor needs to understand that the post-recession market returns to date are not normal historically and consider their intestinal fortitude ahead of the inevitable next downturn.

At Intrepid Capital, we have chosen an entirely different path – one that rests on the backs of our eight-person analyst team. The benchmark indices for each of our portfolios are not a reference point for us during portfolio construction, and each security is carefully underwritten as to business valuation for equity and assets or free cash flows for debt. We seek to thrive on periods of market turmoil, as volatility dislodges opportunities to put our cash reserves to work and scoop up businesses at bargain prices.

We continue to seek businesses that can be valued with a high degree of confidence and those we believe to be selling at a discount to our fair value estimate. Our goal is to provide attractive absolute risk-adjusted returns, which we believe we have done so far in 2016. The Fund ended the quarter with a healthy (by industry standards) cash balance of 20.7%, available to deploy should volatility continue to increase in the back half of the year. The Fund's three largest contributors during the quarter were EZCORP (CUSIP 302301AB2), American Science & Engineering (ticker: ASEI), and Dundee Corp. (ticker: DC/A CN). The Fund's three largest detractors for the quarter were Hornbach Baumarkt AG (ticker: HBM GR), Teradata Corp. (ticker: TDC), and Oaktree Capital (ticker: OAK).

The Intrepid Capital Fund (ICMBX) continues to have an overall 4-star Morningstar Rating out of 820 Moderate Allocation 50%-70% Equity funds for the period ending June 30, 2016 (derived from a weighted average of the fund's three-, five-, and ten-year risk-adjusted return measures). Included in this weighted average rating is a 5-Star Morningstar Rating out of 479 Moderate Allocation 50%-70% Equity funds, based on risk-adjusted returns for the 10-year period ending June 30, 2016.

We are pleased to report that over the same 10-year period, the Intrepid Capital Fund (ICMBX) has outperformed 97% of the 479 funds in the Morningstar Moderate Allocation 50%-70% Equity peer group, based on total returns. Morningstar ranked the Fund in the 54th, 71st, 55th, and 3rd percentile out of 895, 820, 704, and 479 Moderate Allocation 50%-70% Equity funds for one-, three-, five-, and ten-year periods ending June 30, 2016, respectively.

Thank you for entrusting us with your hard earned capital; it is not a position we take lightly. If there is anything we can do to better serve you, please don't hesitate to contact us.

Best regards,

Mark F. Travis
President
Intrepid Capital Fund Portfolio Manager

Mutual fund investing involves risk. Principal loss is possible. The Fund is subject to special risks including volatility due to investments in smaller companies, which involve additional risks such as limited liquidity and greater volatility. The Fund is considered non-diversified as a result of limiting its holdings to a relatively small number of positions and may be more exposed to individual stock volatility than a diversified fund. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments by the Fund in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. The Fund may invest in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods.

The Russell 2000 Index consists of the smallest 2,000 companies in a group of 3,000 U.S. companies in the Russell 3000 Index, as ranked by market capitalization. The S&P 500 Index is a broad-based, unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. The Bank of America Merrill Lynch High Yield Master II Index is Merrill Lynch's broadest high yield index, and as such is comparable with the broad indices published by other investment banks. Barclays Capital U.S. Aggregate Bond Index is an index representing about 8,200 fixed income securities. To be included in the index, bonds must be rated investment grade by Moody's and S&P. You cannot invest directly in an index.

Quantitative Easing (QE) is a monetary policy used by central banks to stimulate the economy when standard monetary policy has become ineffective. Initial Public Offering (IPO) is th first sale of stock by a private company to the public. Investment Grade is a bond with credit rating of BBB or higher by Standard & Poor's or Baa3 or higher by Moody's.

Morningstar Proprietary Ratings reflect risk-adjusted performance as of 6/30/16. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar risk-adjusted return measure that accounts for variation in a fund's monthly performance placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in distribution percentage. The Intrepid Capital Fund-Investor received 3-Stars among 820 for the three-year, 3-Stars among 704 for the five-year, and 5-Stars among 479 Moderate Allocation – 50% to 70% Equity Funds for the ten-year period ending 6/30/16. The rating is specific to the Investor Share Class and does not apply to other share classes, which have different ratings.

Morningstar Rankings represent a fund's total-return percentile rank relative to all funds that have the same Morningstar Category. The highest percentile rank is 1 and the lowest is 100. It is based on Morningstar total return, which includes both income and capital gains or losses and is not adjusted for sales charges or redemption fees. The ranking is specific to the Investor Share Class and does not apply to the other share class, which as different rankings.

 Past performance is no guarantee of future results.

Active investing has higher management fees because of the manager's increased level of involvement while passive investing has lower management and operating fees. Investing in both actively and passively managed mutual funds involves risk and principal loss is possible. Both actively and passively managed mutual funds generally have daily liquidity. There are no guarantees regarding the performance of actively and passively managed mutual funds. Actively managed mutual funds may have higher portfolio turnover than passively managed funds. Excessive turnover can limit returns and can incur capital gains.

Opinions expressed are subject to change, are not guaranteed and should not be considered investment advice or recommendations to buy or sell any security.

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