Intrepid Capital Funds *the constant pursuit of value*

INTREPID ENDURANCE FUND

2nd QUARTER 2015 COMMENTARY

2Q2015

JUNE 30, 2015

PERFORMANCE

		Total Return			Average Annualized Total Returns as of June 30, 2015		
	Inception Date	Qtr.	YTD	1 Year	3 Year	5 Year	Since Inception
Intrepid Endurance Fund - Inv.	10/03/05	-0.97%	-1.25%	-3.73%	5.74%	7.90%	9.70%
Intrepid Endurance Fund - Inst.	11/03/09	-0.82%	-1.09%	-3.48%	6.02%	8.17%	8.45%
Russell 2000 Index		0.42%	4.75%	6.49%	17.81%	17.08%	8.08%^

^Since Inception returns are as of the fund's Investor Class inception date. Since the inception date of the Institutional Class, the annualized return of the Russell 2000 Index is 16.49%.

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.*

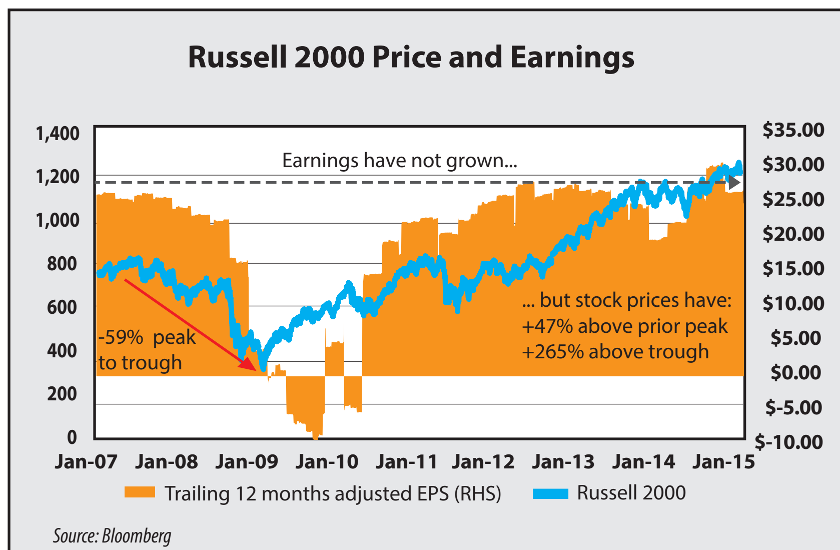
Per the prospectus, The Fund's annual operating expenses (gross and net) for the Investor Share Class is 1.40% and for the Institutional Share Class is 1.15% through 1/31/16.

July 1, 2015

Dear Fellow Shareholders,

On June 26, 2015, the Intrepid Small Cap Fund's name changed to the Intrepid Endurance Fund (the "Fund"). We made the change to preserve the Fund's ability to maintain a defensive stance until stock prices return to levels we find more sensible. There is no change to the Fund's investment discipline, and we will continue to seek out undervalued small cap securities.

Despite negative first quarter U.S. GDP growth, corporate profits edging lower, and Greece coming apart at the seams, the Russell 2000 Index reached a new all-time high one week ago. The Russell is trading 46.5% above its peak from the previous market cycle, which occurred on July 13, 2007. Since the prior market top, aggregate earnings for the Index's constituents haven't increased, even on an adjusted basis that removes any charges classified as extraordinary. The Index fell 59% from peak to trough during the last bear market. We believe there is material downside risk today for investors. The Fund continues to carry a considerable cash position, reflecting our inability to identify small caps that meet our valuation criteria.



Source: Bloomberg

Is the end near for the bull market? We think so, but we do not possess any special insight into market timing. A month ago in a *Wall Street Journal* op-ed, Burton Malkiel, author of *A Random Walk Down Wall Street*, chided Janet Yellen for her prediction in July 2014 that biotech and social media stocks had "substantially stretched" valuations.[1] Malkiel noted that the Nasdaq Biotechnology ETF has

[1]Malkiel, Burton G. "Janet Yellen is No Stock Market Sage." *Wall Street Journal* (June 1, 2015).

rallied 40% since Yellen's comments, which he attributed to not only speculators but also "sophisticated companies" that have made acquisitions in the space at large premiums. The implication was that because biotech stocks have continued their rapid ascent, Yellen was wrong. On January 10, 2000, a "sophisticated company" announced it would merge with a much younger tech company that had a highflying stock up 79% in the 12 months prior to the announcement. That was the AOL-Time Warner deal, which ultimately destroyed hundreds of billions in shareholder value. Sophisticated companies and sophisticated investors make mistakes all of the time. There is no doubt in our minds that the stock prices of many businesses are currently supported by the prospect of M&A, which is being fueled by artificially suppressed interest rates and the inability of many large companies to grow organically.

The average publicly-traded company is trading at the highest earnings multiple on record.[2] It has never been harder for us to find value. According to analysis by Sundial Capital Research, the percentage of unprofitable IPOs is higher today (78%) than at the apex of the tech bubble in 2000. The valuations assigned to many private tech companies are eye-popping, to say the least. Last week, the *Wall Street Journal* described how WeWork Companies, a provider of shared office space to startups, has received a $10 billion valuation after the latest funding from Fidelity Management & Research.[3] The article noted that Boston Properties, the largest publicly-traded office landlord, carries a $19 billion market capitalization. Boston Properties owns 45 million square feet of real estate, including many prime locations. In contrast, WeWork *leases* 3.5 million square feet, which it transforms into hip, fun working spaces. It then subleases the transformed offices to small companies who pay much higher rates. Nifty idea. According to the article, WeWork is profitable and was priced at approximately 100x operating income when a $5 billion valuation was placed on it in December. You read that right—the valuation increased 100% in 6 months. Recent investors in WeWork are doubling down their bets on the sustainability of today's renewed startup frenzy, since WeWork depends on the continued vibrancy of funding for untested companies. That's the sort of bet we are not willing to make.

For the second quarter ending June 30, 2015, the Intrepid Endurance Fund returned -0.97%, while the Russell 2000 Index gained 0.42%. The holdings within the Fund fell -2.16% during the period. **The performance of our holdings over the past three quarters has not been satisfactory.** We deserve some blame. Yet, we also believe the market has unfairly punished several of our holdings, which we expect to be cured in time. The Fund's three largest contributors in the second quarter were Dundee (ticker: DC/A CN), Tetra Tech (ticker: TTEK), and Bio-Rad (ticker: BIO). None of them had material developments that are worth detailing. The four largest detractors to the Fund were Contango Oil & Gas (ticker: MCF), Corus Entertainment (ticker: CJR/B CN), Sandstorm Gold (ticker: SAND), and EZCORP 2.125% Convertible Notes. In our opinion, the first detractor was a screw-up by your Fund's Lead Portfolio Manager, while the latter three remain core holdings that deserve to trade at higher prices.

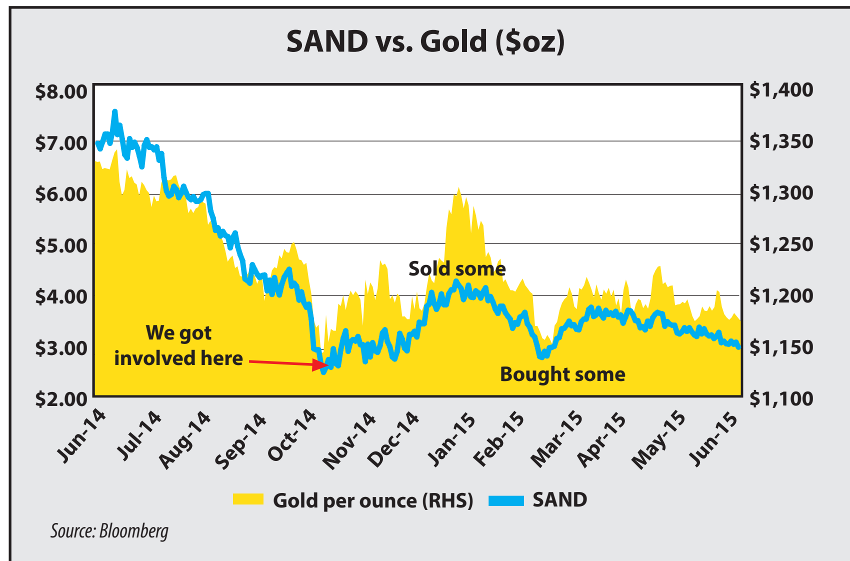
We purchased Contango Oil & Gas last fall during the rout in oil prices. At the time, we expected oil prices to recover (still do), but we wanted to ensure that our energy investments possessed balance sheets that could weather a prolonged downturn. Contango is one of the least leveraged small cap E&Ps. The company's offshore natural gas fields are generating cash that management is investing in onshore liquids-oriented plays that have higher breakeven costs than most competitors. Contango's stock held up very well during the early stages of the collapse in oil prices, and we should've fully exited our position then and rotated into more compelling opportunities. The shares sold off sharply after the first quarter earnings report in May. That report highlighted Contango's unfavorable position on the cost curve for its onshore portfolio. During our conversations with management, their explanations about Contango's increasing cost trend were inadequate. In hindsight, we improperly overemphasized the clean balance sheet at the expense of asset quality, and we failed to sell when losses could have been mitigated. We regret our decision-making, but at this point, we think the stock is pricing in more bearish scenarios for long-term oil and natural gas prices that we anticipate.

In our opinion, the primary reason that Corus Entertainment's stock has underperformed is because the company's advertising revenues have been weaker than competitors' results. Television ratings on Corus's specialty TV networks have generally held up well, unlike the carnage experienced by certain U.S. broadcasters like Viacom. Therefore, Corus's weak operating results present a conundrum—with stable ratings, we would have expected stable advertising revenues. We believe Corus might have been slow-footed in its pricing response to a mildly soft Canadian ad market, enabling competitors to steal business. If this is the case, the issue should be fixable, and that may serve as a catalyst for a recovery in the stock. Another possible catalyst for Corus is a takeout. We think a probable endgame for Corus is its acquisition by a larger, vertically-integrated cable company. We expect

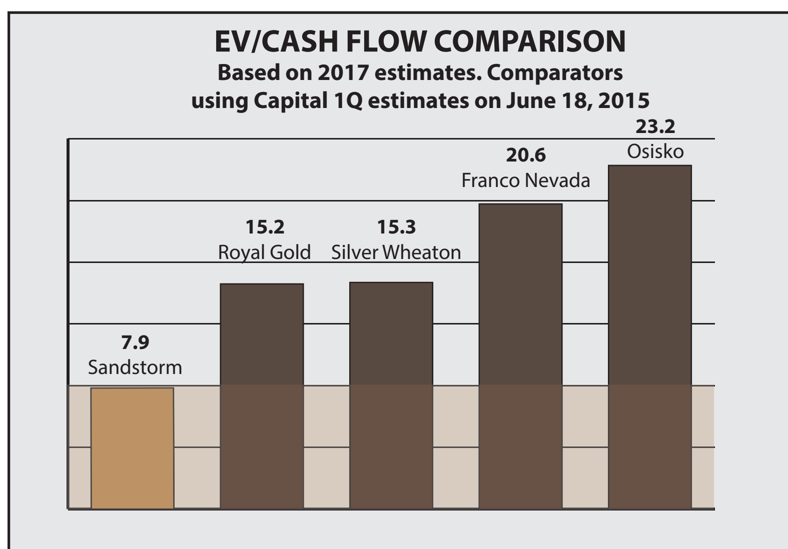
[2]Paulsen, Ph.D., James W. "Median NYSE Price/Earnings Multiple at Post-War RECORD." Wells Capital Management. *Perspective - Economic and Market* (Jan. 8, 2015).
[3]Brown, Eliot. "WeWork's Valuation Soars to $10 Billion." *Wall Street Journal* (June 24, 2015).

there would be material synergies in a combination with Shaw. Corus is trading for 8x free cash flow with a 6% dividend yield. The valuation multiple appears to be the lowest among all public North American media companies.

Sandstorm Gold's shares were weak this quarter due to the softening gold price. We first bought the stock last fall after gold had slid sharply. Our timing was better than usual. We believe that Sandstorm's streaming and royalty business model is superior to precious metals miners. Mine owners have greater operating leverage, which hurts them when gold and silver prices are falling. When precious metals are rising, the miners are still subject to cost inflation and potentially higher taxes and royalties from the governments of emerging economies where the mines are often located. Given unprecedented global monetary policy easing, we think there is a place in our Fund for precious metals companies. We are not convinced the Fed will follow through on promises to raise interest rates, and even if they do, we expect the moves to be incremental.



Margins and cash flows for streaming and royalty companies like Sandstorm, Royal Gold, Silver Wheaton, and Franco-Nevada remain high even at current gold and silver prices. These firms also participate in the free upside from growth in mineral reserves funded by their mining partners. Sandstorm probably deserves to trade at a discount to peers, since some of its partners are financially weaker than the miners that anchor competitors' royalty portfolios. However, Sandstorm has made significant progress in upgrading the quality of counterparties in its portfolio. The stock is trading for below 10x trailing free cash flow and half of the forward multiple of peers.



Source: Sandstorm June 2015 Investor Presentation

During the second quarter, we purchased more of the convertible bonds of pawn operator EZCORP, which widened to an 8% yield on the company's announcement of a restatement at a Mexican subsidiary. It's hard for us to envision scenarios where we are not paid off at par (or better) when the bonds mature in four years. The tables on the next page show our calculation of

asset coverage on the bonds, assuming EZCORP received nothing for either its domestic financial services (i.e. payday) business or the Mexican subsidiary with accounting issues. The table on the left uses the company's latest balance sheet to demonstrate that the liquid assets of the parent and pawn subsidiaries alone comfortably cover all of the firm's recourse debt. The table on the right shows that credit quality is even stronger when viewed against recent transaction prices paid by industry leaders. The pawn industry continues to consolidate, and over the past 2 years there have been 6 major pawn store acquisitions by First Cash Financial, Cash America, and EZCORP. The average purchase price per store was $2 million. If we assume each of EZCORP's 497 U.S. pawn stores could be sold for $1.1 million, the lowest transaction price reported from recent deals, and we assume each of EZCORP's 242 Mexican stores could be sold for $400k, similar to other transactions, the total proceeds plus cash and investments cover EZCORP's liabilities by 250%. In a yield-starved world, we are surprised other investors haven't taken notice.

Convertible Bond Asset Coverage: 12/31/14	
Unrestricted cash	77,599
Pawn loans	150,930
Pawn service charges receivable	30,241
Inventory	133,986
Pawn current assets only	392,756
Cash Converters stake	97,000
Conservative asset total	**489,756**
	EZCORP total
Accounts payable and accrued exp	80,314
Customer layaway deposits	5,133
Other current liabilities	6,258
2.125% Convertible notes at par	***230,000***
Total liabilities, excl. Grupo debt	**321,705**
Coverage	**1.52**

Coverage based on transaction comps	
U.S. pawn stores	497
Value per store	$1,097
Value U.S. pawn ops	544,986
Mexican pawn stores	242
Value per Mex store	$400
Value Mexican pawn ops	96,800
Unrestricted cash and inv.	174,599
Asset value	**816,385**
Convertible notes & other liab.	**321,705**
Coverage	**2.54**

Source: Intrepid Capital Management, Inc.

The last year has been incredibly frustrating. **The greatest challenge is not resisting the urge to buy overvalued stocks—it's accepting the reality that the longer this market continues to rise unabated, the more people are going to tell you that you're wrong.** It's the Monday Morning Quarterback Effect (M.M.Q.E.—the acronym is quite appropriate here). In April 2012, GMO's Jeremy Grantham wrote to clients about career risk, or the tension between protecting your job or your clients' money:[4]

> The central truth of the investment business is that investment behavior is driven by career risk. In the professional investment business we are all agents, managing other peoples' money. The prime directive, as Keynes knew so well, is first and last to keep your job. To do this, he explained that you must never, ever be wrong on your own. To prevent this calamity, professional investors pay ruthless attention to what other investors in general are doing. The great majority "go with the flow," either completely or partially. This creates herding, or momentum, which drives prices far above or far below fair price… Missing a big move, however unjustified it may be by fundamentals, is to take a very high risk of being fired…Picking cash or "conservatism" against a roaring bull market probably lies beyond the pain threshold of any publicly traded enterprise. It simply cannot take the risk of being seen to be "wrong" about the big picture for 2 or 3 years, along with the associated loss of business.

So, here we sit, seen by most as wrong for 3 years and counting. Three years is a long time. For me, it encompassed the births of two babies and a noticeable increase in blood pressure. However, three years is not long enough in the investment business. Long-term investors should be judged over a full market cycle, which may not conform to popular 3 or 5 year measurement periods.

I have been asked several times what I would do differently were the investment clock rewound to the beginning of 2012. I think many expect me to contritely state that my takeaway is that Quantitative Easing (QE) works, so I would keep a fully invested

[4]Grantham, Jeremy. "My Sister's Pension Assets and Agency Problems (The Tension between Protecting Your Job or Your Clients' Money)." GMO *Quarterly Letter* (April 2012).

portfolio if I could do it all over again. Instead, my response goes something like this:

> We are not trying to stake out the moral high ground. Given the benefit of a crystal ball, I would've altered many decisions. I would've been fully invested until April 29, 2011, then zero percent invested until October 3, 2011 (avoiding a 30% drawdown), and then fully invested from late 2011 through to the present. Oh, and I would've bought Netflix and biotechs. Stating that is a no-brainer, since we want to deliver the best possible returns for our clients. We have learned many things about various companies and industries over the last several years, which I think will enhance our decision-making going forward. Yet, the gap in performance between the Fund and its benchmark over the past 3 years has resulted overwhelmingly from the Fund's high level of cash. The cash allocation is the byproduct of our investment discipline paired with a small cap market that we see as extremely overheated. Our discipline does not attempt to predict investor behavior. That's a fool's errand. Instead, we strive to avoid the full extent of painful market drawdowns by adhering to a time-tested valuation methodology. Equally important, we seek to capitalize when others panic and sell securities at low prices. Our goal in marrying these two approaches is to produce an attractive absolute return over a full cycle. **We have remained faithful to our process.**

Top Ten Holdings	(% of net assets)
Corus Entertainment, Inc. - Class B	3.7%
Tetra Tech, Inc.	3.5%
Ezcorp, Inc., 06/15/2019, 2.125%	3.1%
Dundee Corp. - Class A	2.9%
Pitney Bowes Intl Pfd Stock	2.6%
Amdocs Ltd.	2.6%
Ingram Micro, Inc. - Class A	1.8%
Sandstorm Gold Ltd.	1.7%
Unit Corp.	1.3%
Bio-Rad Laboratories, Inc. - Class A	1.3%

Top ten holdings are as of June 30, 2015. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security.

Our staunch, defensive positioning has cost us clients. That's an unfortunate but necessary evil to managing money this way. The same investment discipline has won us clients over the years, such as those who appreciated the Fund's outperformance during and immediately after the 2008 credit crisis. We are at a juncture where market risk appears much greater than potential reward. To thrive, you must first survive. We believe the Intrepid Endurance Fund is in an excellent position to respond to changing market conditions.

Thank you for your investment.

Sincerely,

Jayme Wiggins, CFA
Intrepid Endurance 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. The Fund may invest in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods.

Prior to June 26, 2015, the Fund was named the Intrepid Small Cap Fund.

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. You cannot invest directly in an index.

Cash Flow measures the cash generating capability of a company by adding non-cash charges and interest to pretax income. Free Cash Flow measures the cash generating capability of a company by subtracting capital expenditures from cash flow from operations. Free Cash Flow Yield equals normalized free cash flow divided by the company's market capitalization. It measures how well a company generates cash from its current operations. E&P (Exploration and Production) is a type of company in the oil and gas industry focused on discovering and extracting crude oil and natural gas from underground reserves. M&A refers to Mergers and Acquisitions. Earnings Per Share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. Enterprise Value (EV)/Cash Flow is the enterprise value of a company divided by its cash flows.

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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