Intrepid Capital Funds
the constant pursuit of value

INTREPID INTERNATIONAL FUND

1ST QUARTER 2016 COMMENTARY

1Q 2016

MARCH 31, 2016

PERFORMANCE

	Inception Date	Total Return: Qtr.	YTD	1 Year	Average Annualized Total Returns as of March 31, 2016: 3 Year	5 Year	Since Inception
Intrepid International Fund - Inv.	12/30/14	3.67%	3.67%	2.08%	-	-	-0.29%
MSCI EAFE Index		-3.01%	-3.01%	-8.27%	-	-	-3.19%
STOXX Europe 600 Index		-6.97%	-6.97%	-12.23%			3.04%

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 2.84%. 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% through 1/31/17, respectively. Otherwise, performance shown would have been lower.

April 4, 2016

Thirty seconds. We went like this, he went like that. I said to Hollywood,
"Where'd he go?" Hollywood says, "Where'd who go?"
-Wolfman (Character), Top Gun

Dear Fellow Shareholders,

If you blinked, you missed it; the markets had a rough start to the year, but before many took notice it was raging back. The MSCI EAFE Index (the "Index"), still ended the first quarter negative, at -3.01%, but that was a much better result than what would have happened if the quarter ended in mid-February when it bottomed out at -12.95%.[1] The Intrepid International Fund (the "Fund") returned a positive 3.67% for the quarter ended March 31, 2016. Our outperformance was almost entirely on the downside – when the Index hit bottom in February, the Fund had fallen only 7.12%. On the way back up, the Index and the Fund rebounded by 11.43% and 11.62%, respectively. The quarter was filled with plenty of news stories, most of which revolved around lowering interest rates.

The weakness that kicked off the year was spurred by concerns in China when their central bank weakened the yuan, signaling they were struggling with economic growth and striving to rekindle exports. Concerns from the East were not limited to China, as North Korea claimed it successfully detonated a hydrogen bomb. Globally, investors were struggling with weak oil prices that plunged to below $30 per barrel. Concerns about economic growth did not go unseen by central bankers, and their reactions were not unheard by the markets. On January 21st, the President of the European Central Bank, Mario Draghi, announced they would consider changes to their monetary policy during their next meeting in March. The European market, as measured by the STOXX Europe 600 Index, responded with a daily increase of nearly 2%. A week later, on January 29th, Bank of Japan (BOJ) Governor Haruhiko Kuroda lowered rates to -0.1%, a move made to spur banks to lend as they are essentially punished for keeping cash. To us, this move appeared extreme; however, Bloomberg reported, "The BOJ won't hesitate to add further monetary stimulus if needed and has scope to make deeper cuts to the negative rate or to increase its asset purchases."[2] On February 11th, Sweden's central bank (Riksbank) lowered their benchmark interest rate by 15 basis points (bps), to 0.5%. Sweden's economy is performing

[1] 12/31/2015 – 2/12/2016.

[2] Fujioka, Toru and Hidaka, Masahiro. "Bank of Japan Adopts Negative Rates, Keeps Asset-Buying Target." *Bloomberg.com*. Bloomberg LP. 28 January 2016.

Top Ten Holdings	(% OF NET ASSETS)
Balda AG	14.0%
GUD Holdings Ltd.	5.0%
Hornbach Baumarkt AG	4.2%
Corus Entertainment, Inc. - Class B	4.1%
Royal Mail PLC	4.0%
Vetoquinol SA	3.7%
GEA	3.7%
Dundee Corp. - Class A	3.4%
Programmed Maintenance Services Ltd.	3.4%
Pacific Brands Ltd.	3.1%

Top ten holdings are as of March 31, 2016. Fund holdings are subject to change and are not recommendations to buy or sell any security.

just fine and the low interest rate is confounding. On March 10th, Draghi revealed what he meant with his prior statement, and expanded Quantitative Easing monthly bond purchases from €60 billion to €80 billion (they'll buy corporate bonds to boot!), and reduced rates by 10 bps to -0.4%. Central bankers appear to be competing in a race to see who can inflate the fastest; they must have misread mathematician's Carl Jacobi's quote "Invert, always invert" as "Inflate, always inflate." Each week's announcement had us feeling like we were watching the musical, *Annie Get Your Gun.*

{Annie:}
Anything you can do, I can do better!
I can do anything better than you!

{Frank:} No you can't!
{Annie:} Yes, I can!
{Frank:} No, you can't!
{Annie:} Yes, I can!
{Frank:} No, you can't!
{Annie:} Yes, I can, Yes, I can!

Much of the central bank action others base investment decisions on is simply entertainment for us. We highlight it in part to differentiate between investing and speculating. Ben Graham and David Dodd attempted to differentiate between investing and speculation in their influential book, *Security Analysis* (1934): *"An investment operation is one which, upon thorough analysis, promises safety of principal and a satisfactory return. Operations not meeting these requirements are speculative."* Buying bonds with a negative yield may provide a feeling of safety of principal, but we'd be hard-pressed to find any investor admit that the promise of a loss embedded with a negative yield provides a satisfactory return. While we are not interested in purchasing negative yield securities, we are intrigued with the underlying value of companies, and buying when we think prices are low. In fact, we think our outperformance in the first quarter can be understood by re-reading a portion of our letter from the fourth quarter of 2015, one in which we underperformed:

For several reasons, we are not troubled by our negative performance in the quarter. Firstly, one quarter is a very short time period; investing takes patience, and some stocks can take years to work out. Secondly, ***we took the weak performance in several of our stocks as a great opportunity to buy.*** *We do not believe a fall in the price of a stock alone is enough to buy more. However, if the price of one of our holdings falls substantially while we believe the fundamentals have remained strong, we will likely take this as an opportunity to buy.*

The first quarter's performance is again a very short time period. Additionally, some of the stocks we added to during the weakness in the fourth quarter of 2015 became top performers this period. The top three contributors to the Fund in the first quarter were Balda (ticker: BAF GR), Pacific Brands (ticker: PBG AU), and Dundee Corp (ticker: DC/A CN). The two largest detractors were Programmed Maintenance Services (ticker: PRG AU) and GUD Holdings (ticker: GUD AU).

Balda has been discussed in more detail in prior commentaries, but an update is warranted. After several months of a bidding war, the company sold its operations for €95 million, up from the original bid of €63 million. In addition, the company has about €120 million in cash and commercial paper. The stock continues to trade at a discount to the existing net cash plus the proceeds to be received. The future of the new shell is uncertain, which is one reason we believe it is trading at a discount. However, we believe the magnitude of the difference is unwarranted, especially when considering the millions the company has in tax loss carryforwards and the Chairman's historical conservative view towards acquisitions. Furthermore, shareholders have approved a recapitalization whereby much of the excess cash will be returned to the shareholders. Once this return *of* capital is completed, our large weight will be reduced meaningfully but our estimated discount will increase. A simple math example will help explain (see table to the left): Imagine there is a stock out there with no operations, no liabilities, and the only asset is $1.30 per share in cash. Now let's say this stock trades at $1.00 per share, or a 23% discount to the net cash on the books. Said company decides they do not need all of this cash, so they return $0.30 per share to the shareholders. The market price of the stock should fall by the same $0.30, and would be $0.70 per share. However, the net cash on the books is now $1.00 per share, indicating the shares are now trading at a 30% discount. This may seem like financial engineering, something we are generally opposed to. However, the math and concept are quite simple, something we relish.

Theoretical Example (per share)	**Pre-Div**	**Div**	**Post-Div**
Cash	1.30	-0.30	1.00
Stock price	1.00	-0.30	0.70
Discount	23%		30%

Pacific Brands has been a top contributor in the past. Their largest and most profitable segment sells the market leading underwear brand in Australia, BONDS. The company has divested noncore businesses and significantly shored up their balance sheet. Additionally, they have supplemented their wholesale business with retail. Other market participants have finally taken notice of the changes, and the stock price responded in-kind. We have utilized the market strength to reduce this position.

Dundee has been discussed ad-nauseam in the past. This Canadian-based company has a complicated holding structure with investments in myriad companies, many of which are in the resource sector. Last quarter, we discussed the possibility that the weakness in the stock price was beyond the cyclical nature of the holdings to which it is exposed, and we believed was partially due to blind selling for tax loss reasons. We took this time to add to the position. During this quarter the stock price significantly rebounded, although we are still in the red since our initial purchase. Nevertheless, our knowledge of the common equity allowed us to make quick moves in purchasing securities across the capital structure of the firm. During the quarter we purchased two separate preferred stock issues from the company. We have since sold out of one of these two securities at a profit, and hold the other with an unrealized gain. Both of the securities were small issues, highlighting the ability of the fund to take advantage of situations involving smaller and less liquid securities.

Programmed Maintenance Services is a provider of staffing, maintenance, and facility management services. The company recently merged with one of their largest competitors, which is unfolding in an ugly way. The acquired company is in the same industry, but is more sensitive to the weak resource sector. Programmed released a business update in February, guiding that fiscal 2016 earnings would be down substantially. The announcement sent the shares plummeting. "Plummeting" is a term we imagine our investors would rather not read, but it is part of the game and full disclosure is important to us. We took advantage of the decline to add to the position. Since the "plummeting," the shares have rebounded, although not to where they were pre-announcement.

GUD Holdings reported weak results and reduced guidance in late January, causing the stock to fall. The weakness was in segments we consider non-core, while their strong Automotive segment performed well. We took the opportunity to add to the position.

While we have highlighted some of the larger stories that pundits claim drive the markets, our time and energy is focused on the latter part of the letter regarding our holdings. We encourage our investors to place their focus here as well. The hours we put into scrutinizing each of our holdings can be exhausting, and we write detailed reports to summarize our thinking. We welcome clients and prospects of the Fund wishing to get a better understanding, and who want to get in the weeds with us regarding our thinking, to email or call.

Thank you for your investment,

Ben O Franklin IV

Ben Franklin, CFA
Intrepid International 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.

Stocks are generally perceived to have more financial risk than bonds in that bond holders have a claim on firm operations or assets that is senior to that of equity holders. In addition, stock prices are generally more volatile than bond prices. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. A stock may trade with more or less liquidity than a bond depending on the number of shares and bonds outstanding, the size of the company, and the demand for the securities. Similarly, the transaction costs involved in trading a stock may be more or less than a particular bond depending on the factors mentioned above and whether the stock or bond trades upon an exchange. Depending on the entity issuing the bond, it may or may not afford additional protections to the investor, such as a guarantee of return of principal by a government or bond insurance company. There is typically no guarantee of any kind associated with the purchase of an individual stock. Bonds are often owned by individuals interested in current income while stocks are generally owned by individuals seeking price appreciation with income a secondary concern. The tax treatment of return of bonds and stocks also differs given differential tax treatment of income versus capital gain.

The MSCI EAFE Index is recognized as the pre-eminent benchmark in the United States to measure international equity performance. The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 18 countries of the European region. You cannot invest directly in an index.

Basis Point is a unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument. Yuan is the basic monetary unit of China. Quantatative Easing (QE) is a monetary policy used by central banks to stimulate the economy when standard monetary policy has become ineffective. Yield is the income return on an investment. It refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

As of 3/31/2016, € = $1.138

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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