Intrepid Capital Funds
*the constant pursuit of value*

# INTREPID INTERNATIONAL FUND

## 3rd QUARTER 2015 COMMENTARY

3Q2015

SEPTEMBER 30, 2015

## PERFORMANCE

| | Inception Date | Total Return Qtr. | Total Return YTD | Total Returns as of September 30, 2015 1 Year | 3 Year | 5 Year | Since Inception |
|---|---|---|---|---|---|---|---|
| Intrepid International Fund - Inv. | 12/30/14 | 1.43% | -0.60% | - | - | - | -0.50% |
| MSCI EAFE Index | | -10.23% | -5.28% | - | - | - | -5.44% |
| STOXX Europe 600 Index | | -8.35% | 4.40% | - | - | - | 4.86% |
| S&P/ASX 200 Index | | -6.03% | -2.44% | - | - | - | -2.54% |
| MSCI Emerging Markets Index | | -17.90% | 15.27% | - | - | - | -15.11% |

**Performance data quoted represents past performance and does not guarantee future results. Short term performance, in particular, is not a good indication of the fund's future performance, and an investment should not be made based solely on returns.**

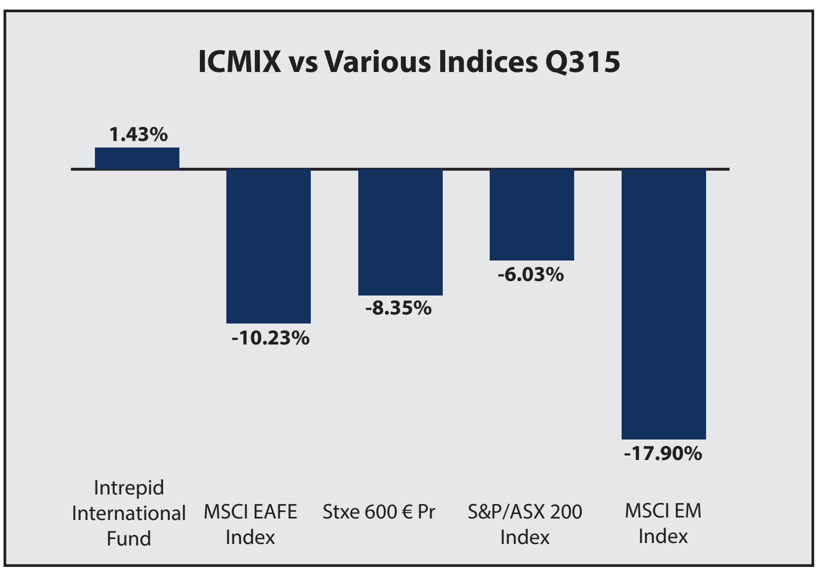
*Investment returns and principal value will fluctuate, and when sold, may be worth more or less than their original cost. Performance current to the most recent month-end may be lower or higher than the performance quoted and can be obtained by calling 866-996-FUND. The Fund imposes a 2% redemption 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 26.05%. 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 1/31/16, respectively. Otherwise, performance shown would have been lower.

October 1, 2015
Dear Fellow Shareholders,

***"Skate to where the puck is going to be, not where it is."***
- Wayne Gretzky

International indices took a beating during the third quarter of 2015, while the Intrepid International Fund (the "Fund") increased 1.43%. The MSCI EAFE benchmark fell 10.23%, while emerging markets took it on the chin with a decline of 17.90% as measured by the MSCI Emerging Markets index. The third quarter of 2015 was marked by turbulent markets across the globe coupled with a myriad of potential explanations that have all been discussed at length in news outlets: blame it on Greece, blame it on China, potential interest rate increases caused turmoil, interest rates didn't increase which caused turmoil, etc. These stories have kept many preoccupied and scrambling to figure out what is coming next. What we are focused on, however, is keeping our head down and analyzing the underlying fundamentals of businesses. This does not mean we are ignoring the news – like Tom Brady and his ~~inflated ego~~ deflated footballs, we are "generally aware." However, we do not have any edge betting on outcomes of large macro events and thus limit our time and energy rummaging through the mountains of economic data.




*Source: Bloomberg*

| Top Ten Holdings | (% of net assets) |
|---|---|
| Balda AG | 14.8% |
| GUD Holdings Ltd. | 4.4% |
| Pacific Brands Ltd. | 4.1% |
| Royal Mail PLC | 3.6% |
| Hornbach Baumarkt AG | 3.4% |
| Programmed Maintenance Services Ltd. | 3.4% |
| Corus Entertainment, Inc. - Class B | 3.4% |
| Dundee Corp. - Class A | 3.4% |
| Vetoquinol SA | 3.1% |
| GEA | 2.9% |

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

We believe this different approach can produce different results than the indices. The last couple of letters have explained this, and this quarter was no different. While the indexes were bleeding, we managed to make money in the quarter. Most of our investments today are in small companies across the globe. Many academics and other professionals will warn about the risk of such investments, but as this quarter highlights, our process can produce profitable returns even in down markets. We believe investing with a "margin of safety" limits risk. In this environment, we have not been able to find many larger companies with a wide enough estimated "margin of safety" and have thus looked elsewhere. We are happy with the level of risk we have taken and believe this focus on the downside is what helps us outperform in these types of environments.

The top contributors during the quarter include Pacific Brands (ticker: PBG AU), Vision Eye Institute (ticker: VEI AU), and Balda AG (ticker: BAF GR). Pacific Brands is a new position, Vision Eye Institute benefitted from a bidding war for the company, and Balda is in the process of selling all of their operating businesses. We own an even larger position in Balda today, which is discussed in more detail below. The top detractors include Dundee Corp (ticker: DC/A CN), Coventry Group (ticker: CYG AU), and Corus Entertainment (ticker: CJR/B CN).

Pacific Brands is an Australian firm we have followed for a long time, but have never owned. They have historically owned many different brands, some of which we believe were of lower quality. Additionally, they were saddled with a large debt load. They have been pruning the business and recently sold off a large division, using the transaction to reduce debt. What's left is a few simple, market-leading brands. The most prominent is in their underwear segment, where they have the number one market share in their brand Bonds. The sale of a large division muddled the picture of the underlying firm, and may have made it difficult for other investors to understand. We dug in deep and found a simple business with great economics and a much improved balance sheet. The share price quickly rebounded once results for the underlying business were released and the market had more information about what the new business would look like. We have held on to much of our position, as we feel it is the type of business that will compound value over time – the type of business we would like to own for the long run.

A bidding war for Vision Eye Institute boosted the shares during the quarter. The company is Australia's largest provider of ophthalmic care, operating clinics and surgery centers throughout eastern Australia. First, a smaller company by the name of Pulse Health (ticker: PHG AU) attempted to acquire Vision Eye Institute with an all-equity deal for what amounted to a price of AUD 0.88 per share. This put the CEO-less company in play, and shortly thereafter Chinese company Jangho (ticker: 601886 CH) bought a 20% weight in the company at a price of AUD 0.94 per share, causing further confusion. Finally, Jangho went public with an offer of AUD 1.10 per share. As the stock rose to nearly that price, we exited the position.[1]

Balda benefitted from announcing the sale of their entire operating business. The operations that are potentially being sold make plastics for several industries, including dosing devices for the healthcare sector. We were never in love with the business, but the company is sitting on a mountain of cash. Historically, we viewed the investment as a discount to cash and assumed we got the operating business for free. But now that they are selling the operations for over €60 million, we are left with a much more interesting situation. When buying a stock at a discount to cash, the discount can remain for long periods of time, resulting in a slow deterioration from inflation. However, when the company is led by shareholder-friendly managers, we believe this valuation gap has a higher probability of narrowing. In this case, that has happened so far. Due to the company being a larger weight than we would ever expect in our portfolio, we'd like to provide more detail on our investment.

Balda had approximately €3.35 per share in cash and term deposits as of their 6/30/2015 balance sheet date, compared to a share price of €3.13 as of 9/30/2015. Additionally, the company received an offer for their operating business of roughly €1 per share. This alone provides an attractive investment opportunity in our opinion. However, the deal

[1] As of 9/30/2015, AUD = USD 0.7018

gets sweeter as they are proposing a dividend of €2.00 per share. Of this proposed dividend, €0.90 is expected to be a return *of* capital, according to management. This large dividend will reduce our position size considerably, requiring us to have a large weight today if we want an adequate weight post-divided. Thus, assuming the dividend is paid out, our 15% weight as of 9/30/2015 will shrink to a weight between 5% and 6%. Like Wayne Gretzky, we plan to "skate to where the puck is going to be, not where it has been." This is the reason for the large position size today. Management has stated they expect net assets of the firm post-sale and post-dividend to be between €2.20 and €2.40 per share. After removing the large dividend, the market cap shrinks to only €67 million, or about *half* of the net assets that management expects the company to have. The company plans to invest the resulting cash, to which they have stated it "can be deployed for new, high yielding investments."[2] Additionally, they have stated, "The goal is to guarantee that the group has a solid cash flow."[3] While these sound like generic goals to us, the picture gets clearer after management stated they will have €50 million in tax loss carryforwards post sale. We think the cash would be well suited for a stable cash flow business whereby they have a high likelihood of utilizing these tax losses.

| In Euros (€) | per share | Share Price (9/30/2015) | % of share price |
|---|---|---|---|
| Approx. cash & term deposits | 3.35 | 3.13 | 107% |
| Est. net selling price of op. bus. per share | 1.00 | 3.13 | 32% |
| Total net assets | 4.35 | 3.13 | 139% |
| Proposed dividend | (2.00) | (2.00) | |
| Net assets post dividend | 2.35 | 1.13 | 208% |

*As of 9/30/2015, € = $1.1177 source: Balda Group, Intrepid*

Dundee, the quarter's top detractor, is a holding company that trades at a significant discount to its net asset value ("NAV"). A large portion of the subsidiaries are in commodities and real estate. Many of their holdings have fallen in market value; however, the fall of the parent company's stock price has outpaced the deterioration of the underlying holdings. The company's CEO has openly discussed increasing transparency of the company to alleviate the large holding company discount.

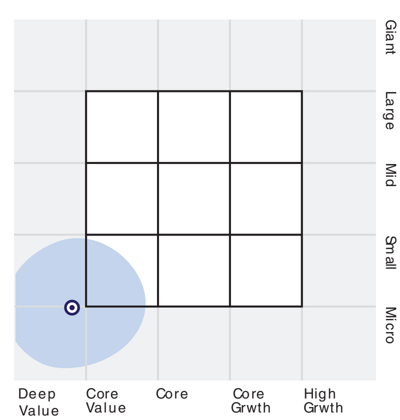
Coventry Group reported unimpressive earnings, sending the stock down. Like Balda, we are buying the stock at what we believe is a discount to the net assets on the books, and have given no value to their largest operating subsidiary. Unlike Balda, this subsidiary is currently draining cash. The company's turnaround strategy includes tangible cost-cutting initiatives. We believe these initiatives will stop the bleeding.

Corus continues to weigh on results. The firm released poor results in July. Advertising revenue for the media company has been weak despite strong ratings on their TV networks. In spite of the poor results, the company produces strong cash flow and pays much of it out in a dividend. We believe the investment is still trading at a discount to our estimated intrinsic value.

While this is a long journey we are on, we were pleased with our results during the quarter. We've touted our small size as an advantage. This allows us to purchase smaller securities that would not make sense to a larger fund, as they would not "move the needle." We have attempted to use this advantage and "think outside the box," and Morningstar's Style Map software agrees…we literally don't fit in their box:

Many of our holdings are trading at multiples much lower than what is available in larger securities, resulting in the Fund being

**Style Map** ICMIX As of 9/30/2015




The Morningstar Style Box reveals a fund's investment style as of the date noted on this report. For equity funds the vertical axis shows the market capitalization of the stocks owned and the horizontal axis shows investment style (value, blend, or growth).

*Source: Morningstar.com*

[2]2015 Balda Annual Report.
[3]2015 Balda Annual Report.

labeled deep value. Some would suggest posturing a fund in small, deep value securities is riskier than buying large, well-known companies. In the current market environment we have disagreed with this, and while the indexes were losing money this quarter, we made some.

Thank you for your investment,

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.**

The MSCI EAFE Index is recognized as the pre-eminent benchmark in the United States to measure international equity performance. The MSCI Em (Emerging Markets) Index is a free-float weighted equity index. 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. The S&P/ASX 200 measures the performance of the 200 largest index-eligible stocks listed on the ASX by float-adjusted market capitalization. Representative liquid and tradable, it is widely considered Australia's preeminent benchmark index. The index is float-adjusted. The index was launched in April 2000. You cannot invest directly in an index.

Book Value equals total assets minus intangible asset and liabilities. It refers to the total amount a company would be worth if iqt liquidated its assets and paid back all its liabilities. Price-to-Tangible Book Value is a financial ratio used to compare a company's current market price to its book value.

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

The Intrepid Capital Funds are distributed by Quasar Distributors, LLC.