Intrepid Capital Funds
the constant pursuit of value

INTREPID INTERNATIONAL FUND

4TH QUARTER 2016 COMMENTARY

4Q 2016

DECEMBER 31, 2016

PERFORMANCE

	Inception Date	Total Return Qtr.	Total Return YTD	Total Return 1 Year	Average Annualized Total Returns as of December 31, 2016 3 Year	5 Year	Since Inception
Intrepid International Fund - Inv.	12/30/14	0.05%	16.71%	16.71%	-	-	5.90%
MSCI EAFE Net Index		-0.71%	1.00%	1.00%	-	-	0.00%
MSCI EAFE Hedged Index		7.26%	6.15%	6.15%	-	-	5.65%
Bloomberg Peer Group - Foreign Blend		2.00%	2.69%	2.69%			1.10%

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. Otherwise, performance shown would have been lower.

January 6, 2017

Dear Fellow Shareholders,

All eyeballs were fixed on the U.S. election during the fourth quarter. When it became clear that Trump would be the victor, international markets plummeted, fearing the worst. They quickly rebounded, at least in their local currency. This erratic behavior is entertaining to witness, but does not tell us what the future holds. In the book *Influence*, author Dr. Robert B. Cialdini explains that "especially in an ambiguous situation, the tendency for everyone to be looking to see what everyone else is doing can lead to a fascinating phenomenon called 'pluralistic ignorance.'" He later goes on to explain that in times of uncertainty, "we are willing to place an enormous amount of trust in the collective knowledge of the crowd." The stock market provides a transparent way to view what everyone else is doing, and we believe the market's reaction in this time period may represent a feedback loop derived from a form of pluralistic ignorance. This type of bias can be dangerous; Dr. Cialdini has gone as far as to have used it as an explanation for the mass suicide that occurred at Jonestown.

Other noteworthy events during the period include the Italian referendum on December 4th that would have given the government more power if passed, the ECB's announcement on December 8th that it will be reducing its bond purchases from €80 billion to €60 billion per month, and the December 14th announcement that the federal funds rate will increase 0.25% to a range of 0.50% to 0.75%. From then on, the markets were relatively calm as participants knocked back some eggnog to cruise into the new year.

The MSCI EAFE Net Index (the "EAFE") finished the quarter down 0.71%, while the Intrepid International Fund (the "Fund") finished about flat at 0.05%. The EAFE's decline was due primarily to the impact of currency as the dollar strengthened significantly. The MSCI EAFE Hedged Index returned 7.26% during the quarter. We don't believe there is a perfect benchmark, especially during a time period as short as one quarter. A hedged index is useful as a comparison, as it adjusts for the impact of currency. However, over time we strive to outperform the EAFE index, as it is the most visible and prominent benchmark used. We will continue to include both indices on our fact sheets. For the year, the EAFE's return was 1.00%, while the Fund returned 16.71%. The hedged EAFE index returned 6.15%.

During the fourth quarter, the three largest contributors to fund performance were Programmed Maintenance Services (ticker: PRG AU), LifeHealthcare Group (ticker: LHC AU), and Fenner (ticker: FENR LN). The three largest detractors were Clere (ticker: CAG GR), METKA (ticker: METTK GA), and Dundee (ticker: DC/A CN).

Top Ten Holdings	(% OF NET ASSETS)
Clere AG	8.3%
Dundee Corp., 4.580%	4.4%
GUD Holdings Ltd.	4.0%
Corus Entertainment, Inc. - Class B	3.8%
Hornbach Baumarkt AG	3.7%
KSB AG	3.6%
Royal Mail PLC	3.5%
HNZ Group, Inc.	3.5%
Stallergenes Greer PLC	3.3%
Coventry Group Ltd.	3.3%

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

As of the beginning of last February, we thought we would be explaining why Programmed Maintenance Services, an Australian maintenance and staffing company, was our largest detractor: it was down 16% quarter-to-date. The company had previously released a trading update explaining EBITDA for the fiscal year would be 20% below their primary forecast due to trouble in their business with the closest ties to the oil & gas sector. Later in November, the company announced earnings and confirmed their previous guidance, and in December announced they won a contract to provide staffing and logistical support at Shell's Prelude floating natural gas project. The announcements were enough to placate investors, sending the shares up 40% off their lows. This investment has been a wild ride for a boring staffing and maintenance business. A poor merger, exposure to cyclical resources, and a significant but manageable debt load are to blame for the volatility.

LifeHealthcare Group is an Australian distributor of medical devices. The company has come under pressure recently due to concerns over cuts in pricing of medical devices on a government Prosthesis List used to determine the price private health insurers pay manufacturers. LifeHealthcare has been transparent about the potential impact, and disclosed that there would only be a 3% variation in pricing for products they supply on a weighted average basis. The market appeared unconvinced, but once the Prosthesis List announcement was made by the government and LifeHealthcare reiterated their stance, the stock began its ascent.

Fenner is a global leader in manufacturing and servicing conveyor belts used in mining operations. The majority of its customers were thermal coal miners in North America and coking coal and iron ore miners in Australia (thermal coal is used to generate electricity, while coking coal and iron ore are used in the production of steel). The company also produces a variety of specialized industrial components used in a range of end markets. As commodity prices fell in 2014 and 2015, Fenner's customers delayed orders and sought price reductions. We got involved in the stock in early 2015 as it fell to a level we believed was a compelling price relative to our valuation based on normalized cash flow. Unfortunately, our timing was not perfect and the stock continued to fall while conditions remained bleak in the company's end markets. In early 2016, we added to the position once the stock fell to £1.00. This time, our timing proved to be fortunate. The stock rallied close to 150% in the remainder of the year thanks to improving conditions in end markets, a partial rebound in commodity prices, and a strategic shift away from supplying the North American coal industry whose challenges are more secular than cyclical. We exited most of our position in late 2016.

Clere has been discussed at length in past commentaries. The security paid out a €9 per share dividend on October 14th that is treated as a return of capital, which has resulted in no taxes being owed. Since that time the stock has trickled down slowly, and as it is the largest weight in the portfolio, a minor decline has a large impact. We do not believe the decline in the security represents a decline in the intrinsic value.

METKA is an international EPC (Engineering, Procurement and Construction) contractor and industrial manufacturer. The company is 50% owned by the Greek industrial company Mytilineos (ticker: MYTIL GA), which consolidates the

company for its reporting purposes. On December 14th, Mytilineos announced that it intends to merge with METKA by exchanging shares at an exchange ratio of 1:1. At the time, Mytilineos shares were trading at a 13% discount to METKA, resulting in a "take*under*." This is absurd to us, as METKA had over €400 million in net cash and receivables from the parent company compared to the announced value of roughly €320 million. The conflicts of interest in this deal are numerous. By virtually any measure, METKA is clearly the better business between the two. Its historical returns on equity are much higher than those of its parent, and it operates with a clean balance sheet compared to the significantly leveraged balance sheet of Mytilineos. In fact, Mytilineos relies on METKA and owes them substantial money. Despite these differences, Mytilineos is attempting to absorb METKA for a ridiculously low EV/EBITDA multiple of 1.7x and a Price to tangible book value of only 0.6x (which is primarily cash and receivables). We are doing what we can to, at a minimum, get a better deal. Barclays will produce an independent valuation of METKA, and the deal must pass through regulators – both of which we think have potential to pressure management to sweeten the deal.

Dundee Corporation is a holding company discussed in prior commentaries. Furthermore, a detailed update is provided in the commentary for the Endurance Fund.

We initiated one new position in the quarter in the shares of ToxFree (ticker: TOX AU). The company is in the waste management industry in Australia, and focuses on the treatment of waste rather than owning landfill assets. The company is well-known for its treatment of difficult-to-treat hazardous waste streams. In order to treat hazardous waste, companies must obtain a license to build a facility. As one would expect, these are difficult to get. Not only does the Australian EPA take years to grant a license, it must also be approved by the local community. While most agree that treatment of hazardous waste is necessary, no one wants it in their back yard (NIMBY!). Thus, rather than going through the arduous process of developing these licenses, ToxFree has acquired them from small mom and pop companies around Australia. Once the license is granted, it is easy to grow the facility without further approval. These licenses are valuable to potential acquirers, making ToxFree a likely buyout candidate at some point in the future. However, our investment is not based on the expectation of a buyout as we believe it is undervalued on its own merits. The Australian waste management industry has not consolidated as quickly as it has here in the United States, and we expect further consolidation. ToxFree has kept a fairly clean balance sheet due to issuing equity as part of their acquisition strategy, which reduces one risk common in this industry, whereby debt-fueled acquisitions result in a high risk of default and reorganization.

While not a top contributor for 2016, another interesting business that we held during the year was a Japanese IT company called Broadleaf. It sells software and other network services to auto repair shops and parts dealers in Japan. A former Carlyle holding, its products connect repair shops with their customers and suppliers, making it easier for them to do business. The investment case featured several characteristics that we like – highly recurring revenues (via software renewals), excellent returns on invested capital, promising new growth opportunities, strong balance sheet, and conservative capital allocation by management. We established a position in the summer of 2016 as a slowdown in core software sales weighed on the stock. Not much changed in the business or stock price until an announcement by the company in November. Shareholders were told that Broadleaf was providing a shareholder benefit plan that would include a prepaid gift card ("Quo" card) and store credit to the company's online auto parts store ("Buhin MAX"). Shareholder gifts such as these are actually quite common among Japanese companies, as gift giving is much more culturally ingrained. It is a popular alternative to dividends and stock buybacks as a means to return value to shareholders. However, the value of the gifts do not scale proportionately to ownership. The total value of our gift cards was the maximum level, or about $104 at today's exchange rates. While the gift itself was clearly immaterial for the Fund, it did help create huge excitement among

retail investors who sent the stock soaring almost 50% in the weeks after the announcement. We used this opportunity to exit all of our position. Rather – almost all of our position. We retained just enough shares to be eligible to receive the gift cards when they are distributed (0.003% of the Fund's 12/31/16 NAV). Assuming the gift card travels the Pacific Ocean, we'll post a picture of it in the next commentary.

Calendar year 2016 was a fun year. Not everything worked out as we hoped, but at certain times we felt Yphurm's law was in effect. We review the year as one where we believe we benefited primarily from our security selection, as we had several company-specific events drive our performance. We prefer our performance to be determined this way, and not by the whims of the market (especially when our return is positive!). At a minimum, this reflects our ability to resist succumbing to the pluralistic ignorance phenomenon. We will continue searching for these off-the-beaten-path investments, as the opportunity set in traditional stocks is still not enticing. Some of these ideas are similar to what Warren Buffett termed "cigar-butt" stocks. If a significant market dislocation were to occur, we believe there is a higher probability we will be investing in more household names. We hope, to a certain extent, this doesn't take too long. Smoking is very addictive, and the longer we employ cigar-butt investing as part of our strategy, the more ingrained it will likely be. If it continues to provide returns like we saw this year (these must have been Cubans!), this may not be a bad thing. While we're happy with our annual return, we think risk is equally, if not more important. We do not directly manage the portfolio to keep the standard deviation down, but we believe our process will result in such. There is no perfect measure for risk, but we have used standard deviation as one estimate. By this measure, we handily beat both the Index and our Bloomberg peer group.

	Risk (Standard Deviation)	2016 Return
Intrepid International Fund (ICMIX)	**9.3%**	16.7%
MSCI EAFE Index	**14.3%**	1.0%
Bloomberg Peer Group - Foreign Blend	**14.5%**	2.6%

Source: Bloomberg

We look forward to the challenges that await us in the next year, and will continue to hone our skills. We wish all of you a Happy New Year. Thank you for your investment.

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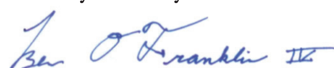

Ben Franklin, CFA
Intrepid International Fund Portfolio Manager

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 Net Index is recognized as the pre-eminent benchmark in the United States to measure international equity performance. The MSCI EAFE Hedged Index represents a close estimation of the performance that can be achieved by hedging the currency exposures of its parent index, the MSCI EAFE Index, to the USD, the "home" currency for the hedged index. The index is 100% hedged to the USD by selling each foreign currency forward at the one-month forward weight. You cannot invest directly in an index.

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. Return of Capital is a payment received from an investment that is not considered a taxable event and is not taxed as income. Instead, return of capital occurs when an investor receives a portion of his original investment, and these payments are not considered income or capital gains from the investment. EBITDA is a measure of a company's operating performance and refers to Earnings before Interest, Tax, Depreciation and Amortization. EV/EBITDA equals the

company's Enterprise Value (EV) divided by Earnings Befoe Interest, Taxes, Depreciation, and Amortization (EBITDA). Price to Tangible Book Value is calculated dividing a company's tangible book value by its share price. Standard Deviation is a statistical measure of portfolio risk used to measure variability of total return around an average, over a specified time. The greater the standard deviation over the period, the wider the variability or range of returns and hence, the greater the fund's volatility.

As of 12/31/2016, £ = $1.234; € = $1.052

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