Intrepid Capital Funds *the constant pursuit of value*

INTREPID INTERNATIONAL FUND

2ND QUARTER 2017 COMMENTARY

2Q 2017

JUNE 30, 2017

PERFORMANCE

	Inception Date	Total Return Qtr.	YTD	1 Year	Average Annualized Total Returns as of June 30, 2017 3 Year	5 Year	Since Inception
Intrepid International Fund - Inv.	12/30/14	0.41%	0.72%	8.00%	-	-	5.00%
MSCI EAFE Net Index		6.12%	13.81%	20.27%	-	-	5.31%
MSCI EAFE Hedged Index		3.09%	8.27%	23.50%	-	-	7.88%

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 dated January 31, 2017, the annual operating expense (gross) for the Intrepid International Fund-Investor Share Class is 2.50%. The Fund's Advisor has contractually agreed to waive a portion of its fees and/or reimburse expenses until January 31, 2018 such that Net Expense Ratio for the International Fund-Investor Share Class is 1.40%. The Net Expense Ratio represents the percentage paid by investors. Otherwise, performance shown would have been lower.

July 5, 2017

"Chasing what can't be done is madness.
But the base person is unable to do anything else."
— Marcus Aurelius, *Meditations*, 5.17

Dear Fellow Shareholders,

Attempting to outperform the index every quarter is a fool's game. Of course, it would be nice to do so but, in our view, any sound investment philosophy will require underperformance at times. For us, this quarter was one of those times. The MSCI EAFE Index (the "Index") returned 6.12% during the quarter, compared to the Intrepid International Fund's (the "Fund") return of 0.41%. One of our primary tenets when we invest is to find securities that have a high probability of preserving capital, while also offering potential upside. During this period, we accomplished the first part but were unable to provide much of the latter. With one security, discussed in more detail below, we will no longer be able to achieve the upside we had hoped for.

International markets have had a good run recently as market participants appear focused entirely on the near-term outlook of the global economy, and not the price paid for securities or any expectation of long-term mean reversion in multiples. The VIX, a commonly quoted proxy for investor fear, hit the lowest level since 1993 during the quarter, and the VIX that tracks the EAFE ETF (VXEFA) hit an all-time low in March.[1] While Fear of Missing Out (FoMO) has caused many to remain fully invested, we believe Warren Buffett's advice to "Be Fearful When Others are Greedy" is sound, and appropriate at this stage in the cycle. In his book, *Black Swan*, Nassim Nicholas Taleb beautifully describes the struggle some people have with avoiding the greedy herd: "Psychologists distinguish between acts of commission (what we do) and acts of omission. Although these are economically equivalent for the bottom line (a dollar not lost is a dollar earned), they are not treated equally in our minds." It is very difficult for investors, as well as managers and CEOs of companies, to differentiate between these two acts. We believe we are treating each dollar the same, and thus have cash built into the portfolio when there is a dearth of opportunity.

1 Mackintosh, James. "Should We Fear the Stock Market's Lack of Fear?" *The Wall Street Journal* 15 May 2017; Bloomberg.

Top Ten Holdings	(% OF NET ASSETS)
Clere AG	6.2%
Dundee Corp., 4.640%	5.8%
Tox Free Solutions Ltd.	4.7%
Coventry Group Ltd.	4.4%
Hornbach Baumarkt AG	4.4%
Corus Entertainment, Inc. - Class B	4.1%
Quarto Group, Inc.	4.1%
Dundee Corp. - Class A	4.0%
GUD Holdings Ltd.	3.8%
Noranda Income Fund	3.7%

Top ten holdings are as of June 30, 2017. Fund holdings are subject to change and are not recommendations to buy or sell any security.

We believe the EAFE index is more susceptible to herd mentality than the Fund due to the number of passive investment products tracking it. In fact, only one of our securities is in the EAFE index. We believe the remaining holdings are idiosyncratic and are trading more on their fundamentals than the general swings in the market. Thus, if the market continues its recent upwards march, we do not expect to keep up.

During the quarter, the top contributors to the Fund were Clere AG (ticker: CAG GR), Stallergenes Greer (ticker: STAGR FP), and KSB AG (ticker: KSB3 GR). Our largest detractors were Dundee Corporation (ticker: DC/A CN), Noranda Income Fund (ticker: NIF-U CN), and Coventry Group (ticker: CYG AU).

Despite Clere being the largest contributor to performance in the quarter, we are not happy with how this investment is progressing. Due to historically positioning this as our largest weight, we have discussed the investment in detail in previous commentaries. As a reminder, this German security is made up of approximately €25 per share in net cash and short-term securities, and the share price has recently traded in the mid- to high-teens. During the period, the company announced their decision to de-list from the Frankfurt Stock Exchange, which required a buyout offer from their largest shareholder, Elector. The minimum price Elector was required to offer was the weighted average trading price over the preceding six months, which was €16.33. At the time of the announcement, Elector held about 35% of the company. Prior to the delisting, we felt the downside was limited by the €25 per share in liquidity. The longer it would take to reach that price, the lower our annualized return, but the value was stable (even if the stock price wasn't!). The Supervisory Board and Management Board (similar to a Board of Directors in the United States) was required to offer an opinion on the buyout offer. Their conclusion about the consideration: nicht angemessen (not appropriate). Despite this, many holders accepted the offer and now Elector has over 50% of the shares outstanding.

One of our largest concerns about the delisting was whether we would still be able to own the security, and if we could still trade it. We scrambled to ask our German contacts whether the shares could trade on another exchange, which would eliminate this concern. We were comforted to know that the brokers expected them to trade, and we found out for sure on June 26th when the shares began trading on the Hamburg exchange. Historically, our thesis has been based on the limited downside, with the potential for upside. This wrinkle changed our thinking slightly, as there is now less liquidity, reduced regulatory oversight, lower visibility for a potential acquirer, and now there is a majority shareholder. Due to these concerns, we believe the downside is not as limited and trimmed the position.

Stallergenes Greer is an allergy immunotheraphy company that struggled with a recall and plant shutdown last year. They have been ramping up production and regaining lost market share. The company is known for their sublingual therapies in Europe, as well as their subcutaneous therapies here in the United States. If you or anyone you've known has received allergy shots, there is a good chance the allergen cocktail came from Stallergenes. The plant shutdown hurt the company's performance, but due to patients only needing to use allergy products for part of the year, it's easy to win back lost customers. In fact, their largest competitor ALK-Abello (ticker: ALKB DC) admitted so much in one of their recent conference calls:

The market is a so-called fickle market which means actually that there will be a pause, you could say, during part of the year where patients will not take treatment when we talk about pollen products. And of course, ***that is a moment where we had a risk to lose these patients again.***

And of course, one-third of the market will be renewed every year. So, you could say that there will be a ***complete wash of the entire market three years after this disruption.***

Stallergenes released earnings at the end of March, and the results appeared to give investors' confidence the company will regain most of the market share they lost. We took this time to reduce our position.

KSB Group is another German company. They manufacture pumps and valves and sell them across the world. The company has been in the process of restructuring, including cutting headcount and significantly reducing costs. They are controlled by the founding family, and financial reporting is not promotional to say the least. Many of their restructuring costs are not specifically called out. We believe this causes analysts to accept that their current earnings are reflective of their current earnings power. However, we think their true earnings power is being masked by these one-off charges that management chooses to bury. This is contrary to most public companies, which gladly point out the one-time costs and exclude them in their "underlying" performance. Additionally, the company has been making changes in their business structure to better position themselves for their target performance. These changes should help the business when economic conditions improve. In April, the company announced that their order intake was up 15%. We believe this increase, coupled with the improvements in the business, leaves the company in a good place to prosper. The market is finally recognizing this with the increased share price during the period.

Dundee has been a problem child for the Fund since we originally purchased it. We believe the Canadian holding company is making progress toward alleviating its cash burn, but the market is not giving them any credit and the stock price has suffered.

Noranda Income Fund's troubles, which were discussed in the first quarter's commentary, continued into the second quarter. The zinc smelter's unionized labor force is still on strike, although they are able to run at up to 50-60% of their normal levels. While a strike is never a good thing, it is better for it to occur at a time when the market treatment charges (i.e. prices) are at their lowest – they likely would not be making money even if running at full capacity. Treatment charges swing around frequently, with the economics for zinc shifting between the miner and smelter. With Noranda's low-cost plant and ideal location on the St. Lawrence river, we believe they are well positioned to prosper when the market recovers.

Coventry Group has robbed performance over several quarters now. This is another company where the net assets of the company are significantly above the market value, but the company is currently burning cash and narrowing that discount. In the first quarter, we discussed a letter we sent to the company's Board of Directors. Since that time, we have had a productive conversation with the Chairman of the Board. We believe he understands the urgency required, and we think he will take the necessary steps if the business does not quickly turn around.

The three detractors discussed have been detractors in the past. This may cause some to ask why we have not "cut our losses." Here we must distinguish between a loss in value and a decline in price. All of these securities have suffered both, in our opinion. However, the fall in price has outpaced the fall in value, and has done so by a large margin. The end result is a larger discount to our estimate of intrinsic value, even as our original value assessment proved too aggressive. In situations such as these, we are more likely to buy than sell. One factor that may sway our decision is if there is significant leverage, whereby a small change in one of our assumptions significantly reduces our opinion on the inherent value.

One of our largest contributors to performance this period was also one of our major disappointments. Metka (ticker: METTK GR) is a Greek engineering contractor and industrial company that was 50% owned by its parent company, Mytilineos (ticker: MYTIL GA). The company had nearly €11 per share in tangible book value, which was primarily cash and receivables from the parent company. Last December, Mytilineos announced it was merging with Metka. The

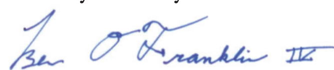
merger was announced at a 1:1 exchange ratio; that is, 1 Mytilineos share for every Metka share. This was at a time when Mytilineos was trading around €6 per share, which could be used as a proxy for the value Mytilineos was offering. In fact, the offer price was *below* where Metka traded at the time resulting in a take**under**. As would be expected, we were not the only shareholders upset about this. In fact, we worked with several other shareholders, both larger and smaller, to fight for a better deal. The largest of the consortium was working with a Greek lawyer, and at one point we had a presentation ready to disburse to the Mytilineos Board, the sell side, and the press. However, the Greek lawyer recommended not submitting the presentation and giving up the fight. The family in charge of Mytilineos is a well-connected Greek family, and it was felt that they could countersue us for slander, despite us only releasing facts. Mytilineos had numerous related party transactions, conflicts of interests, and had given out conflicting information. All around, it was a shady deal. We knew this was a risk when investing in Greece (this would not have been legal in most of the developed world) but were surprised at the egregious mistreatment. Laws in the country often aren't followed; in fact, just this morning the Wall Street Journal wrote "Greeks believe rules are meant to be broken."[2] Not all was lost, however. Due to purchases at lower prices, we were still able to make a small profit on the investment. While sitting on my back porch reflecting on this investment, an appropriate Rolling Stones song began playing: "You Can't Always Get What You Want," which gave me some solace:

You can't always get what you want
But if you try sometimes well you might find
You get what you need

While we didn't get what we wanted (€11 per share), we did get what we needed (preservation of capital). To quote Buffett again, we followed his two rules: "Rule No. 1: Never Lose Money. Rule No. 2: Never Forget Rule No. 1." The thesis with this investment was similar; we felt our downside was limited with the significant liquid assets, and there was potential for a large gain. Unfortunately, it was the majority holder that received the gain. We considered fighting it alone, but the time and money commitment would be too high.

There is plenty of talk about the prevalence of passive index funds and the risks of crowds rushing to buy these assets. At this point, we will say that if an investor wants run-of-the-mill international exposure, then an index ETF may be a good place to start. If, however, you want access to highly scrutinized investment ideas in the dusty corners of the globe, we're your manager.

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 risks of owning ETFs generally reflect the risks of owning

2 Stamouli, Nektaria. "Greece's Antismoking Effort Has One Major Problem: Greeks." *The Wall Street Journal.* 11 July 2017.

the underlying securities they are designed to track. ETFs also have management fees that increase their costs versus the costs of owning the underlying securities directly.

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. Dividend Yield is calculated by dividing the dollar value of dividends paid in a given year per share of stock held by the dollar value of one share of stock. Net tangible assets, or net asset value, is calculated as a company's total assets, minus intangible assets (goodwill, patents, trademarks, etc.) and all liabilities. Tangible Book Value is the total net asset value of a company (book value) minus intangible assets and goodwill.

As of 6/30/17, €= 1.143 USD.

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