Intrepid Capital Funds *the constant pursuit of value*

INTREPID INTERNATIONAL FUND

4TH QUARTER 2017 COMMENTARY

4Q 2017

DECEMBER 31, 2017

PERFORMANCE

		Total Return			Average Annualized Total Returns as of December 31, 2017		
	Inception Date	Qtr.	YTD	1 Year	3 Year	5 Year	Since Inception
Intrepid International Fund - Inv.	12/30/14	6.68%	14.47%	14.47%	8.65%	-	8.68%
MSCI EAFE Net Index		4.23%	25.03%	25.03%	7.80%	-	7.72%
MSCI EAFE Hedged Index		4.03%	16.84%	16.84%	9.21%	-	9.25%

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.

January 9, 2018

"A portfolio that contains too little risk can make you underperform in a bull market, but no one ever went bust from that; there are far worse fates."

— Howard Marks

Dear Fellow Shareholders,

The fourth quarter of 2017 marks the three-year anniversary of the Intrepid International Fund (the "Fund"). Due to this milestone, we will be reviewing more than just the quarter and will give an update on our investment philosophy. To start, the Fund returned 6.68% in the fourth quarter of 2017, compared to 4.23% for the MSCI EAFE Index (the "Index"). The outperformance can be attributed to two buyouts in the period, as well as purchasing a security that was in free fall, which subsequently regained some of its loss. Putting the record on repeat, we do not expect to outperform in a strong upward market. However, despite this being a short time period, we were pleased with the outcome.

For the 2017 calendar year, the Fund returned 14.47% compared to the Index's return of 25.03%. The Index was helped by appreciating currencies, which we did not benefit from due to our strategy of remaining almost entirely hedged. By comparison, the MSCI EAFE Hedged Index returned 16.84% in 2017. This year has been one filled with a positive outlook around the world, which helped buoy stocks higher.

For the three years ending December 31, 2017, the Fund returned 8.65% annually compared to the Index's return of 7.80%. In the Fund's first ever quarter, the first quarter of 2015, we were left unhedged as we waited for our FX trading account to be set up. During this time, foreign currencies declined significantly against the USD. We estimate that the impact of remaining unhedged negatively impacted the performance by over 2%. Despite this, we kept up with the market in this three-year time-period. Simply "keeping up" is not what we aim for; however, there are more pieces to the puzzle than just a return number. The return must be compared to the risk, some of which is quantitative and some of which is

Top Ten Holdings	(% OF NET ASSETS)
Dundee Corp., 5.150%	6.0%
Clere AG	5.2%
Coventry Group Ltd.	5.0%
Retail Food Group Ltd.	4.7%
Dundee Corp., 7.500%	4.7%
Primero Mining Corp., 02/28/2020, 5.750%	4.1%
GEA	4.1%
Dundee Corp. - Class A	4.0%
Hornbach Baumarkt AG	4.0%
Royal Mail PLC	3.9%

Top ten holdings are as of December 31, 2017. Fund holdings are subject to change and are not recommendations to buy or sell any security.

qualitative. To begin with the quantitative measure, the monthly standard deviation of the Fund over the previous three years was 7.8%, compared to our Bloomberg Peer Group's 11.1%, and the Index's 12.0%. That is, our returns were less volatile than both our peers and the index. We would like to note that the past three years have been a relatively calm period, which we think artificially lowers the Peer Group and Index's reading.

While volatility is one measure, most investors want to know what their risk exposure is when markets decline. Here we believe our large cash balances will help cushion any blow. Additionally, many of our investments are defensive businesses that should hold up well in an adverse environment. We believe there are multiple risks associated with the large shift towards passive investing in index funds that track the market. At some point, just as with any other asset that has investors pouring in, there is a risk that the exit door will be narrow. We do not know where that level is, but we have minimum exposure since most of our securities are not included in major indexes or held in the passive investment funds that track them. To summarize, overall, the three-year results were within our expectations. This does not, however, mean we cannot do better – we expect to!

Reviewing the three-year history of the fund is important, but we think a refresher on our philosophy and our research process is equally valuable. Rather than giving long-winded abstract descriptions, we will provide a brief overview and use companies we've studied or owned to provide concrete examples.

Beginning with the types of securities that are attractive to us, our overarching theme is to search for undervalued securities that offer an attractive risk/reward profile. For us, undervalued securities are those that we can buy at a discount of at least 20% to our estimated value. This is a firm-wide philosophy; investing internationally simply gives us a wider opportunity set. We typically derive our estimated intrinsic value through a discounted cash flow model, but will sometimes value a company based on its net assets.

The ideal candidate is a mature, stable business that is *relatively* easy to value. Often, these types of businesses are already priced appropriately and thus do not provide us with an investment opportunity. When this is the case, we dig down deeper to find securities in the dusty corners of the world. More specifically, we have found these ideas in the following types of securities: Out-of-favor, Overlooked, Unique, Illiquid, and Deep Value. While these are specific types of securities, it should be stated that our philosophy is not constrained into a few buckets. In fact, it may be more important to explain the types of investments we avoid. This *via negativa* philosophy, typically used to describe theology, is a good model for understanding our strategy.

The list of items that fall in this "avoid" pile is long: those that we cannot value with a high degree of confidence, over-leveraged firms, complex investments (but not necessarily complicated), competitive industries, budding industries, and cyclical industries. We also avoid using relative valuations, macro investing, and generally avoid the outside opinions of the sell-side. This exhaustive list requires a caveat: ***Many of the ideas we proclaim to avoid can become attractive if the security falls enough for us to evaluate the business as being worth much more than the trading price.*** This compact description with long lists may be difficult to follow; we believe the reader will make more sense of it after reading some of the descriptions of individual securities below.

Security analysis is an important part of the picture; however, portfolio management is just as important. Any analyst can claim a security is undervalued, but there must also be courage to act on his conviction. This area becomes difficult to describe in quantitative terms because it is more qualitative in nature.

Nevertheless, beginning with the quantitative side, ideally we'd like the portfolio to consist of 25 equally weighted securities of 4%. This will likely never happen for many reasons. More important to performance is our emotional discipline. This is perhaps the most important asset of our strategy; however, it is symbiotic with our security analysis. When a security we own is declining, our conviction is tested. It's important to avoid buying something *because* it is falling, but to understand the risks associated and make an informed decision. With this said, we are typically contrarian in our trading philosophy and often buy on weakness. We describe this as our "buy high, sell low" strategy. Yes, you read that right. ***We buy when our conviction is high, and sell when our estimated discount to intrinsic value is low.*** We prefer this description because investing when we believe we are getting a good deal is more of a high for us than a low. While the Fund is still young, management is not. We look forward to being tested, and expect our investors to judge our poise in such an environment.

An important requirement for managing a portfolio in the fashion we do is to have ample cash available. Since the inception of the fund, the quarterly average cash level has been close to 30%. This cash is a drag to performance when markets are booming, but we believe it is more than worth the cost when markets decline. We thrive on this flexibility.

We have consistently expressed our focus on long-term investing, but the proof is in the pudding. We do not consider three years a long time, but we can give an update on where we stand today. As of the end of the quarter, 10 of the 25 securities held were owned at the launch of the Fund. This is equivalent to over one-third of the assets. We tend to have long holding periods because it can take time for our thesis to work out. Additionally, we think our patience gives us an advantage over our competitors. For many of our securities, this has worked to our advantage with the occasional buyout. In fact, of the 42 securities we have purchased since the inception of the fund,[1] eight have been bought out while we owned them and two more were acquired after we sold the securities. At face value, having roughly 20% of our securities acquired by another firm appears desirable. However, in some cases we would have rather held that company for a long period of time, potentially in perpetuity.

We are frequently asked about the risks and costs of investing internationally. Some of the additional highly cited risks include political, accounting, and currency hazards. We typically avoid areas with geopolitical concerns unless the security is trading at a large discount, and even then, we typically just dip our toe in. No place is completely safe from accounting fraud; however, in our experience investing in the developed markets has added no additional accounting risk than here in the United States. We do not want our performance to be the result of currency swings; thus, we try to hedge our currency exposure so long as it is not too expensive to do so. We believe the risks associated with the companies we invest in are not as high as one would think considering these additional concerns. Lastly, we believe all these risks are significantly reduced through diversification.

Investing internationally is more expensive than it is domestically. There are higher trading commissions, hedging costs, payments to be on multiple exchanges, and withholding taxes on dividends. We'll highlight a couple of these costs that are easier to quantify. Trading commissions in our last fiscal year were 0.25% of the principal traded. This results in a 0.50% total hit when accounting for both the buying and selling of a security. Withholding taxes on dividends are typically 15% in the countries we are currently invested in, except for the UK, which has no withholding tax. These taxes are a burden on some of our higher dividend yielding investments. All the costs mentioned are represented in our historical performance. We believe these costs are offset by the larger pool of opportunities from which to find attractive

1 The 42 securities include multiple securities from some issuers. For example, we purchased four different securities in Dundee Corp.'s capital structure.

investments. However, we are cognizant of these costs and strive to keep them low whenever possible. After all, we're heavily invested in the Fund as well.

One other risk we'll mention is liquidity risk. We discuss this last because we believe this risk is often accounted for with an asymmetric higher potential reward, which gives us access to an inefficient corner of the market. Additionally, many other larger competitors with more resources often overlook these ideas. For these reasons, we research quite a few of the smaller, more illiquid securities in the market.

The following discussion on the contributors, detractors, new investments and securities sold will highlight which parts of our philosophy were applied. Our top three contributors during the period were HNZ Group (ticker: HNZ CN), Retail Food Group (ticker: RFG AU), and Tox Free Group (ticker: TOX AU). Our three largest detractors during the fourth quarter were Dundee Corp (ticker: DC/A CN), Corus Entertainment (ticker: CJR/B CN), and Noranda Income Fund (ticker: NIF-U CN). During the period we initiated positions in Berentzen Gruppe AG (ticker: BEZ GR) and Retail Food Group. We also exited Dominion Diamond (ticker: DDC) as the previously announced buyout was completed.

HNZ is a Canadian helicopter operator that we wrote about last quarter. As is often the case in investing, HNZ was a top contributor this quarter after being a top detractor in the prior quarter. On October 31st, the company announced it would be acquired by its CEO and competing helicopter operator PHI. CEO Don Wall acquired the Canadian segment of the business, while PHI bought the offshore operations conducted in New Zealand and southeast Asia. The $18.70 acquisition price was a 43% premium to where the stock closed the previous day, and was very close to our $19.00 estimate of intrinsic value. Considering the challenges facing helicopter operators today, we believe the buyout price was fair. The transaction was completed on January 3rd, and we received cash for our holdings, resulting in more cash in the portfolio than is presented on our fact sheet.

HNZ had several attributes that made it attractive to us. Originally, the company was struggling due to a large contract with the US Military that expired. This caused earnings to fall, as well as the share price. This is when we became interested, as we saw it as a company that had significant asset value given their fleet of helicopters owned. This was likely the case because the current earnings were low, causing investors to overlook the value of the assets in a normal operating environment. However, we felt the trading price was such a large discount to the asset value that we could hold on while they either replaced the contract or sold the assets. Additionally, as the stock price fell the security became illiquid, causing additional selling pressure by those who do not want to hold such an asset. Despite our attraction, HNZ was more cyclical than the typical stable business we like. Consequently, our initial position was small. Later, the stock fell precipitously to an even lower level, which we felt gave us a larger "margin of safety." At this point, we tripled our weight due to the large disconnect between price and value. This emotional discipline is given credit for our positive return; had we not been aggressive when the stock fell, we likely would have made little to no money on the investment. However, when it did decline, we felt we were buying "high," as described above.

Retail Food Group is an Australian franchisor of restaurants in the bakery, coffee and quick service pizza categories. We initially researched the company in August, but concluded that the price was not cheap enough given the challenges plaguing franchisees in several of the company's core brands. Things got interesting in December when a bombshell investigative media report was released that alleged systemic wage fraud, foreign worker exploitation, struggling franchisees, and a brutal system of franchisee abuse. To make matters worse, RFG released a statement days later that their earnings were anticipated to come in below previous expectations. The stock plummeted over 60% in the days following the media report and earnings warnings. True to our "Intrepid" namesake, we began buying aggressively as the stock was in free fall. In our view, the market panic ignored key areas of value for the company. In our estimation, a large part of RFG's value rests in its non-franchise divisions. For instance, RFG has a large coffee wholesale business and recently acquired a significant commercial food distribution business. Once the value of these divisions was accounted for, the implied price of the remaining franchise businesses was remarkably cheap. And while we acknowledge that RFG's franchises have important problems, they certainly have *some* value. To be clear, we don't condone any of the practices alleged in the news report, and we typically avoid investing in businesses or management teams that appear unethical. In this case, we believe the issues raised in the report are probably not as widespread as the article suggested. Additionally, the owners of the individual franchises are given the freedom to run their business how they desire, and it is unsurprising that a small group took shortcuts. After speaking with the company's management team, we are confident that they are taking the appropriate steps to right the ship. The timing of our purchase proved to be fortuitous. The stock rallied 40% from our average purchase price in the days following our investment. Even after this rebound, we still believe the stock is undervalued and have maintained a position.

This purchase highlights our approach to trading securities. When a stock falls by over 60% in a week and a half, buying is often considered foolish and criticized as trying to "catch a falling knife." In many cases, this is correct. However, if we feel we have done our homework and think the value is higher, then we believe we have a good set of protective gloves on when catching the knife. This was also an example of us buying a <u>stable business</u>. We were able to purchase it at a discount due to what we see as temporary problems.

Tox Free is an Australian hazardous and toxic waste disposal company. The company does not own any landfills, and focuses on treating difficult hazardous waste material. The facilities used for hazardous waste disposal require approval from the government. Furthermore, no local community wants hazardous waste anywhere near their residences. This makes it difficult to construct new facilities. Fortunately, existing locations can be expanded significantly. We believe this gives Tox Free a competitive advantage, and one that bigger competitors may desire. Additionally, the company has a traditional industrial waste management business. Traditional waste management businesses benefit significantly from scale; a higher density route allows the company to spread costs of operating a depot across a larger volume of trucks and waste. Again, we felt this was another attribute of an attractive buyout candidate. In addition to these qualities, overhead could easily be cut in the case of a buyout.

While we believed this created a potential catalyst, we were primarily focused on purchasing this defensive business (trash never goes away) at a discount to our estimate of intrinsic value, even if a buyout never happened. The stock price had languished when we began researching the company at the end of the 2016 summer due to concerns about their exposure to the cyclically weak resource sector. The concerns were real; revenue and earnings had declined significantly. However, due to this decline, the company's exposure to the volatile resource sector had also been reduced. Furthermore, the company acquired a business in the healthcare disposal sector at what we thought was an attractive price. Based on our valuation, we felt we were making a prudent purchase when we initiated our position in September of 2016 at a price of approximately AUD 2.35 per share. Since then, the company weakened due in part to not receiving an important contract that originally appeared to be a done deal. However, the remaining business still appeared significantly undervalued, especially when considering the synergies of a potential buyout. On December 11th, the company announced that competitor Cleanaway (ticker: CWY AU) will acquire the firm at a price of AUD 3.43 per share.

Tox Free had several characteristics of a business we like. We believed it was an <u>overlooked</u> security that was a <u>stable business</u> and was <u>*relatively* easy to value</u>. The company was overlooked due to its historical exposure to the resource sector, which represented 60% of revenue in 2013. In fact, the sell-side analysts who follow the company were typically the same ones who covered Oil and Gas! However, going forward, less than one third of revenue would be from Resources, similar to the Australian economy as a whole. We believed the existing business was not as cyclical, and had long-term contracts with favorable industry dynamics resulting in consistent demand. First, trash is not going away. Second, governments in developed countries like Australia are using technical equipment to help "Reduce, Reuse, Recycle" as the kid's slogan here in the United States goes. Due to this stability, we felt it was fairly easy to value.

Our three largest detractors were all Canadian firms. Corus's stock price continues to be weighed down by the concern that the television market will shift towards over-the-top. The concerns are valid, but we believe firms like Corus with high-quality content will adapt eventually. This may be at lower profitability, but the current valuation implies significantly more degradation in the results. We are currently evaluating whether further weakness is priced in to the stock.

Without a doubt, Corus fits into the <u>out-of-favor</u> box. It has been out of favor for a long time, and it may remain so for even longer. One attribute that we believe offsets some of the decline in the share price is the large 10% dividend.

Holding company Dundee has been making strides toward eliminating their current level of cash burn, but they appear to be holding tight to Murphy's law. Their chicken processing facility, which was not even operating at the time, burned down during the quarter. We still believe the net assets of the company are worth significantly more than where the stock is currently trading.

Like Corus, Dundee is currently <u>out-of-favor.</u> However, we feel there are significant assets backing up the value. While we do not like all of the assets it holds, it is fairly diversified, and the discount to the asset value is so large that all of the assets would have to be significantly impaired in order for us to feel our investment had lost value. Additionally, the stock struggled throughout 2017, and we believe investors may have been taking tax losses in the fourth quarter on the few shares that declined in value.

Noranda Income Fund is a Canadian zinc smelter. The company has been struggling with multiple woes of late, although we received good news with regards to one trouble area. Over half of the workforce had been on strike, but the company came to an agreement to get them working again. The company has not been making money in the current environment, so the recent strike has not been as detrimental as one would think. Despite this good news that the union was going back to work, we believe the overall negative sentiment surrounding the company is what led to the 7% decline in the period.

Noranda is a <u>small</u>, <u>illiquid</u> company. Furthermore, it has a complicated capital structure whereby the resource behemoth Glencore (ticker: GLEN LN) owns 25% of the trust via different share classes. We think this, coupled with being in an <u>out-of-favor</u> zinc industry with the labor dispute, causes this security to be <u>overlooked</u>. This company may also have been plagued by tax loss selling.

The Berentzen-Gruppe is a small German beverage company with a long history. They have been producing grain schnapps since 1758, but today only a little over half of their earnings are derived from alcohol. They also sell non-alcoholic beverages like waters and teas, as well as fresh juice systems to cafes, restaurants and hotels. We like the current valuation of this business, as well as the recurring revenue model that we believe provides <u>stability</u>, and makes it <u>*relatively* easy to value</u>.

As we begin our fourth year, cash remains high in the portfolio. However, there are some attractive investment candidates out there waiting for us. We will continue to be patient, ensuring that our research is solid before committing capital. With valuations high around the globe, we think patience is even more important. We believe our strategy is one that can withstand an adverse environment. We strive to have attractive risk-adjusted returns over an extended period of time, and we look forward to being tested in all market environments.

Thank you for entrusting us with your capital.

Sincerely,

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 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.

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. 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. Cash Flow measures the cash generating capability of a company by adding non-cash charges and interest to pretax income.

As of 12/31/17, 1 USD = 1.27984 AUD.

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

Diversification does not guarantee a profit or protect from loss in a declining market.

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