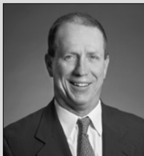
REPRINTED FROM JULY 3, 2017

THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Managing an Eclectic Balanced Fund with Minimal Constraints



MARK TRAVIS is the CEO, President and a Co-Founder of Intrepid Capital Management, Inc. Mr. Travis is the President of the Intrepid Capital Funds. He is also the Lead Portfolio Manager of the Intrepid Capital Fund, the Intrepid Disciplined Value Fund, the separately managed Intrepid Balanced and Intrepid Disciplined Value portfolios, and the Intrepid Capital, L.P. Mr. Travis has over 30 years of experience in asset management. He received his B.A. in economics from the University of Georgia.

SECTOR — GENERAL INVESTING

TWST: Could you tell me a little bit about the firm?

Mr. Travis: Intrepid Capital is, I like to joke, a 22-year overnight success. We started in 1995, in early 1995. For the first decade, we ran separate accounts largely for private clients and some small institutions. We started the first of our now six no-load funds in January of 2005, and over the course of 2005, 2006 and 2007, we opened three additional ones. We were very fortunate in 2007/2008 and 2009.

We tend to focus on what we consider to be the less efficient parts of the capital markets, smaller-cap equity and short-duration high yield debt. We practice what I think of as classical security analysis, trying to figure out what a business is worth as represented by its equity, and in terms of the bond market, how we'll be repaid either from cash flows or assets if something were to go bump in the night. I tend to think of us as a shorter-duration investor. We are looking to see how quickly the free cash flows of an enterprise can get back to us as an investor, whether that's in the equity, in terms of buyback or a dividend, and in terms of debt-repayment ability in the fixed income market.

The other unusual part of our process is if we can't find a suitable investment, we will wait until we can; otherwise, we will default to cash. That makes us look very dissimilar to the market. Again, our corporate desire is to participate in an up market and to preserve capital in a down market.

We've come to learn in industry publications that we as a firm have very high active share. We look very dissimilar to the indexes, whether that's the Russell 2000 or certainly the S&P 500. And we have high Sharpe ratios across our funds. With that said, our most recent performance is not appealing-looking, although the longer term is. It's unfortunate, I think, that most fund investors will tell you they want long-term performance, but money seems to be allocated over a shorter and shorter time basis, from my perspective.

TWST: Do you think sometimes investors see the breaking news on a cable business channel, and they want to get in quickly and get out quickly, and that is impacting how they look at the long term?

Mr. Travis: Well, there is no question. I think there probably are few people that are adept with enough technology to trade. Certainly, the high-speed quants that have been chronicled by Michael Lewis and others used to make money in nanoseconds. That's not really what we're attempting to do at all. Our turnover ratio is probably in the 30% range over a long-term — 10-year — holding period.

I think it's probably very difficult though for the typical retail investor watching cable news with very little other input and trying to trade based on what the most recent information is. I suspect that many, if not most, investors really don't know what their investment returns are. They count dollars, but they don't look at it on a time-weighted rate of return and then compare that to almost anything else. And I think a lot of the industry frankly — the sell side, in particular — attempts to not to show them their calculated results on a time-weighted basis. They obfuscate their actual results.

TWST: I understand you're the Portfolio Manager of the Intrepid Capital Fund. Does that fund have a different investment philosophy?

Mr. Travis: Well, it does. It's an eclectic balanced fund, and again, it has very little constraints on it. Most of our peers would be pretty traditional, 60% S&P 500, 40% Lehman Brothers Government/Corporate Index fixed income. This fund has some international exposure because we also look across the globe now, as we have an international small-cap fund. And it tends to have more cash than many. Today, that cash level is in the high teens, somewhere in the 17%, 18% range of cash.

And it doesn't have a constraint on the debt. It can be investment-grade or non-investment-grade. It's even been distressed at some points, but there is almost no distress out there from what I can tell at this point. And it's not market-cap-constrained either. So it can own a very small company to a very large company, depending on what the opportunity set looks like at that point in time.

TWST: You mentioned that you have some exposure to international investments. Any concerns about what's going on in Europe or Asia right now, or some of the other regions?

Mr. Travis: Well, I think globally — last time it was counted, we had something like $17 trillion in negative interest rate sovereign debt out there, largely in Japan and Germany and a few other places, and even here for a while. And so that has bid up, I think, most every asset class that I can think of. So while we have concerns, we are U.S.-based investors; we hedge our currency risk back into dollars. We're not making currency bets.

And I think in a centrally planned economy like China's, it's hard to know exactly what's going on, frankly. So I think there are probably

some speculative excesses out there, and I feel certain there are. It's just hard to know what's going to make things change, but I would say, in my now 33 years in the industry, something always surprises investors that we can't foresee today. A lot of times it's a currency devaluation or some other out-of-the blue issue that scares the equity markets.

attractive margins. It trades for 6.3 times normalized operating profit and nine times expected free cash flow. The shares are in the high teens. We think they're worth in the mid-20s. And management has recently bought back, purchased stock for their own benefit here in the last six months, which has significance in our view.

"This fund has some international exposure because we also look across the globe now, as we have an international small-cap fund."

TWST: Did you want to highlight a stock that you are holding that you find interesting right now?

Mr. Travis: Sure. One that we've owned in the past and we've owned here recently is **Patterson-UTI** (NASDAQ:PTEN). It recently acquired **Seventy Seven Energy** out of bankruptcy from **Chesapeake Energy** (NYSE:CHK). But **Patterson** has a number of high-quality rigs, land-based drilling rigs that are electric. So now, with all the horizontal drilling and fracking, they are one of the premier providers of that technology.

You can value those rigs both new and in the secondhand market. The APEX 1500s, I think, trade or purchase new for around $21 million, and then they bought, with the acquisition of **Seventy Seven Energy**, they acquired 91 additional rigs. Plus, they also acquired another 0.5 million horsepower pressure pump and equipment to go with the over million horsepower they already had.

And they've been very careful with their balance sheet. Drilling rigs troughed at one point in 2014, I believe, or 2015, and now they are back up. They probably doubled in the last year. But if you value their pumping equipment and you value their rigs, you'd get a higher share price than where the shares trade today.

Again, it's tied to a commodity. So I think it's a position that's pretty volatile. But I think this business is built to survive the commodity cycle, and because they have high-quality assets, I think they will do well over time and lead to a higher share price. You can buy them today for, I want to say, a little around $20 a share — $21, $20.75 a share.

TWST: What makes them more appealing than some of their competitors in the field?

Mr. Travis: Well, I think from a vendor standpoint, just the fact that they have so many high-quality rigs. A lot of people have the old mechanical drilling rigs. They've got now the electrical, which are preferred. And I think when they acquired **Seventy Seven**, they issued some stock.

So it's a very unconstrained balance sheet from my perspective. It's a $4.5 billion enterprise value. They've got close to $0.5 billion in cash, and they've got $598 million in debt. The way I would look at it is, after subtracting the cash from the debt, they have virtually no net debt. So it's not a levered commodity play. I want to have operational risk, but I won't have operational risk and financial risk.

TWST: Do you want to mention the second company?

Mr. Travis: Yes. The second company is **Syntel** (NASDAQ:SYNT). It's an IT outsourcing firm predominantly with Indian work force. They've got some customer concentration. Their top-three clients are **American Express** (NYSE:AXP), **State Street** (NYSE:STT) and **FedEx** (NYSE:FDX). I think since **American Express** lost **Costco** (NASDAQ:COST), they've kind of pulled back. Earlier in the year, **Syntel** guided the Street revenue guidance down around $50 million, and it's now somewhere in the $900 million forecast range.

I'm sure with the new potential travel ban and H-1B visa issues that some are concerned, people in this company, but this company is very embedded in financial services and health care, and they have very

1-Year Daily Chart of Patterson-UTI Energy, Inc.

Chart provided by www.BigCharts.com

TWST: Do you get a feeling where they might be headed in the next few years, where their focuses might be?

Mr. Travis: Well, I think their digital offerings will help drive some revenue. It's a classic kind of consulting business, a technology consulting business that has attractive margins, but they've got some very long-term customers. So it's been a stable business. It generates somewhere in the $150 million to $200 million a year in free cash flow that we're valuing to get to the mid-20 share price. But again, I think in this environment, where you've had unusually low volatility and very few down days, it's hard to find, in our view, mispricings. This just happened to be one we've come across.

TWST: Did you want to mention another company?

Mr. Travis: Sure, an international, and I think it has merit. It's a company called **Royal Mail Group** (LON:RMG). It is the U.K.'s designated universal postal service provider. It also services part of continental Europe. As you would guess, most mail carriers are suffering from mail deliveries actually being down, but in their case, parcel is up. And so they really haven't been Amazon-ed, so to speak. The internet sales business is actually helping their delivery business. They have 29 million unique addresses in the U.K.; they're authorized to deliver six days a week. The shares have been paying a dividend between 4% and 5%.

This company is basically the privatized British mail system. It was taken public, I believe initially, in the fall of 2013. And they also have some really attractive real estate in the central business district of London that I think could be monetized.

The negatives are **DHL**, the German package delivery service, who has acquired a company to compete with them, and as you might guess, trying to privatize what's been a government entity is a long, hard slog. They are trying to come to negotiations with their employees over the pension for that company, which is taking a while. But we think the shares trade at about a 30% discount to a private market value as we've calculated them.

TWST: Do you think it provides any lessons for other foreign companies that might have come from a privatization

initiative about some of the challenges that are faced when you do privatize?

Mr. Travis: Well, I think, again, as you might guess or I would, it's cultural. I think today, if we look at what we spend at the U.S. Postal Service, and I don't have it in front of me yet, but it's interesting to see what is charged for an envelope in the U.K. versus the U.S. for delivery. But trying to change the culture from what has been a governmental entity with the governmental union to a flexible private enterprise like **FedEx**, that's not an easy task. So yes, I think there are some proper lessons for lots of different reasons.

1-Year Daily Chart of Syntel, Inc.

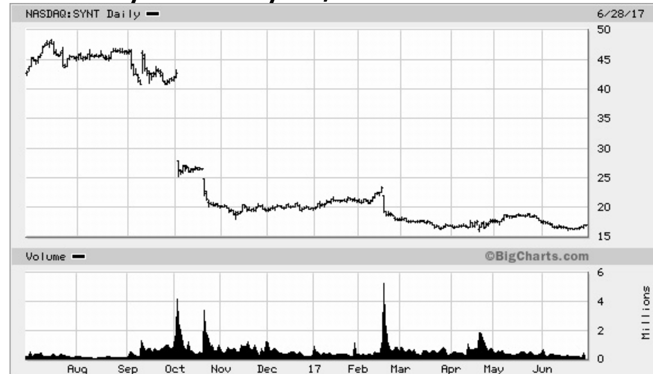


Chart provided by www.BigCharts.com

"I think in this environment, where you've had unusually low volatility and very few down days, it's hard to find, in our view, mispricings."

TWST: Does it provide us a sort of warning bell in case some people in the United States want to consider doing something like that with the postal service?

Mr. Travis: Right. Well, yes, I don't know what the math is behind the U.S. Postal Service. My guess is we lose a considerable amount of money. We have post offices in all sorts of out-of-the-way places that we have to maintain and deliver to a lot broader area than they do in the U.K. I don't know what the answer is to that problem in the U.S., frankly. But yes, I would think it would be a tall task to try and do what they're doing in the U.K. And it may be a tall task for **Royal Mail Group**.

I think there are some, I call them, hidden assets of equity; I mean, of the real estate equity there, where if you're familiar with corporate accounting, it's carried at cost, and it's not mark-to-market. So those central business district properties are held on their books at prices that are probably not anywhere reflective of current market prices in London. And the dividend certainly is attractive at that rate.

Certainly, this company is not a utility per se but has some aspects of a utility to it. Their margins are regulated by what they call Ofcom — Office of Communications — the government regulatory authority who is authorized to make sure they earn enough money to keep providing the service. So you've got some balance sheet strength and long-held real estate assets, you've got a dividend that's better than most of the U.S. bond market, and on a discounted cash flow, you've got a share price that is 70% of what we think the business' true value is based on the cash flows today.

But again, looking at this balance sheet, in British pounds, it's 4.8 million pounds in enterprise value, somewhere in size to **Patterson**. It has $299 million in cash and $657 million in debt. So again, similar to the **Patterson** example, very little net debt, trades for slightly over nine times the enterprise value to the EBITDA that it generates, and so I think that it's the type of business we're just going to hang on to until that value is realized.

TWST: Did you want to mention one final company?

Mr. Travis: One that we've had for a while that's gone through some transition is **Corus Entertainment** (TSE:CJR.B). They're the leading specialty television network and radio channels in Canada. It is one of our larger holdings for the last three years. Today, if you are to turn on TV in Canada, if a woman or child is watching TV, most of the programming is coming from **Corus**, so that helps them with advertisers.

The business has done well in the past recession. In early last year, they bought out its one-time parent **Shaw Media**. So now they can compete better with the top Canadian companies, **Bell** and **Rogers** (TSE:RCI.A). And this one has, again, a high level of free cash flow, and it has a very high dividend relative to what you see in the U.S. at this point. Yes, so it's a C$2.6 billion market cap, and it has an 8.74% dividend rate. Shares today in Canadian are C$13, and we value the business at C$20. So you have a material discount to private market value, and you've got an extremely high dividend being paid out of consistent free cash flows.

TWST: When you talk to investors, what are some of their concerns that they've expressed to you about 2017 and 2018?

Mr. Travis: Well, I think at this stage in the cycle — and kind of backing up, I think our objective is to perform over a full market cycle. When I look at the history of our funds, we had one bullish phase early in our inception from 2005 to 2007. We had the bearish phase of 2008 and 2009. Now, we've had another bullish phase from 2009 until now, with a brief interruption around the U.S. debt downgrade in the summer of 2011, but not of real significance from our point of view. So we need another bear cycle to kind of prove out this process; we'll have two complete market cycles at that point. I think what I'm seeing most is people are concerned about keeping up, and when the psychology changes from concern over loss to keeping up and not making enough, I think that's indicative of where we are in the market cycle to me.

TWST: Any unique concerns from the point of view of the Baby Boomers who are in retirement or nearing retirement?

Mr. Travis: Absolutely. I think for most American workers, if they are to look at the economics behind their 401(k) plan, even if they maximally contribute based on the caps, governmental caps, and I believe those to be $18,000 and may be as much as $24,000 if you're over 50, and assuming the future value of that annuity payment, if you will, and then the future value of their existing balances, and then try to take that out to age 65 or 70 and replicate their income of that defined contribution, I think it's probably woefully short for most, if not all, people in this country. And with that said, the defined benefit pension plans are grossly underfunded led off by states like Illinois and others, California probably and New Jersey. So I think the Baby Boomers are going to have to play a game of catch up and try to save more than they have in the past and earn a reasonable return so they can even come close to replicating what they've earned during their working days.

TWST: And for some of them, it might mean working longer than they expected.

Mr. Travis: It could be that. I think what I'm trying to do as a fund

manager is deliver equity-type returns without equity-type risk.

But again, in this environment we're in, risk is not something most people are speaking about in my opinion. There are few, but it's not too many. And unfortunately, from what I know of this industry, most people tend to buy high and sell low. And so I try to, through the management of Intrepid Capital Fund, try to avoid that for our customers by trying to offer a low-volatility experience with the reasonable rate of compounding to help meet their objectives.

TWST: Thank you. (ES)

MARK TRAVIS
CEO, President & Co-Founder
Intrepid Capital Management, Inc.
1400 Marsh Landing Parkway
Suite 106
Jacksonville Beach, FL 32250
(904) 246-3433
www.intrepidcapitalfunds.com

The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectuses contain this and other important information about the investment company, and it may be obtained by calling 866-996-FUND or visiting www.intrepidcapitalfunds.com. Read it carefully before investing.

Mutual fund investing involves risk. Principal loss is possible. The Fund is subject to special risks including volatility due to investments in small- and mid-cap stocks and high yield securities. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments by the Fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. 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 an ETF generally reflect the risks of owning the underlying securities they are designed to track, although lack of liquidity in an ETF could result in it being more volatile than the underlying portfolio of securities.

Earnings growth is not a measure of the Fund's future performance.

The Russell 2000 Index consists of the smallest 2,000 companies in a group of 3,000 U.S. companies in the Russell 3000 Index, as ranked by market capitalization. The S&P 500 Index is a broad-based, unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. You cannot invest directly in an index. Cash Flow measures the cash generating capability of a company by adding non-cash charges and interest to pretax income. Free Cash Flow measures the cash generating capability of a company by subtracting capital expenditures from cash flow from operations. Sharpe Ratio is a measure that indicates the average return minus the risk-free return divided by the standard deviation of return on an investment. Turnover Ratio is the percentage of a mutual fund or other investment's holdings that have been replaced in a given year, which varies by the type of mutual fund, its investment objective and/or the portfolio manager's investing style. The Lehman Brothers Government Corporate Bond Index is an unmanaged market-weighted index, comprised of government and investment grade corporate debt instruments with maturities of one year or greater. Investment Grade is a bond with credit rating of BBB or higher by Standard & Poor's or Baa3 or higher by Moody's. Normalized Operating Profit is earnings that are adjusted to remove the effects of seasonality, revenue and expenses that are unusual or one-time influences. EBITDA equals Earnings Before Interest, Taxes, Depreciation, and Amortization. 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. Active Share is a measure of the percentage of stock holdings in a manager's portfolio that differ from the benchmark index. Sharpe Ratio is a measure that indicates the average return minus the risk-free return divided by the standard deviation of return on an investment.

While the fund is no-load, management and other expenses still apply.

Active investing has higher management fees because of the manager's increased level of involvement while passive investing has lower management and operating fees. Investing in both actively and passively managed mutual funds involves risk and principal loss is possible. Both actively and passively managed mutual funds generally have daily liquidity. There are no guarantees regarding the performance of actively and passively managed mutual funds. Actively managed mutual funds may have higher portfolio turnover than passively managed funds. Excessive turnover can limit returns and can incur capital gains.

As of 6/30/2017, 1.2964 CAD = 1 USD; 0.7730 GBP = 1 USD.

As of 6/30/2017, the Sharpe Ratio for the Intrepid Capital Fund (ICMBX) was 0.65%, for the S&P 500 Index was 0.52% and for the Russell 2000 Index was 0.46%.

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

Intrepid Capital Management, Inc. is the advisor to the Intrepid Capital Funds. The Intrepid Capital Funds are distributed by Quasar Distributors, LLC.

TOP TEN HOLDINGS as of 6/30/17	**(% OF NET ASSETS)**
Berkshire Hathaway, Inc. - Class B	3.6%
Patterson-UTI Energy, Inc.	3.4%
Leucadia National Corp.	3.3%
Corus Entertainment, Inc. - Class B	3.2%
Royal Mail PLC	3.0%
Teradata Corp.	2.9%
Syntel, Inc.	2.8%
Amdocs Ltd.	2.7%
Baldwin & Lyons, Inc. - Class B	2.5%
Spotless Group Holdings Ltd.	2.3%

Fund holdings and sector allocations are subject to change and should not be considered a recommendation to buy or sell any security.