Intrepid Capital MANAGEMENT INC.

1Q 2018

Index Returns	
1/1/2018 to 3/31/2018	
Dow Jones:	(1.96%)
S&P 500:	(0.76%)
NASDAQ:	2.59%
Russell 2000:	(0.08%)
MSCI EAFE:	(1.53%)

QUARTERLY COMMENTARY

April 2018

"Houston, we've had a problem."

— James Lovell – Apollo 13 Astronaut

Dear Friends and Clients,

Do you ever feel like the demands and distractions of everyday life keep you from stepping back and focusing on the big picture? You're not alone. The constant fire hose of news and the flashing of red and green ticker symbols often leave me wondering if I should be tested for Attention Deficit Disorder at my next physical. There are times where I feel as if I have taken a paper clip from my desk drawer and inserted it into the closest electrical socket.

Writing these letters always provides a healthy pause button from the portion of my days that I spend within 24 inches of a Bloomberg screen. The end of each quarter is an opportunity to move from my desk, with its flashing monitors, to the couch in my office, sweep all the mental clutter into the closet for an hour, and reflect on where we have been and where we might go.

The last two months have marked a meaningful (and hopefully lasting) shift in investors' attitudes toward risk. January of 2018 started out like most of the prior year, with asset prices steadily setting new highs while volatility was near record lows. The S&P 500 extended its record run of 15 straight months of gains, ending the month an impressive 5.7% higher. Investors, for their part, saw no reason to break from the old "What, me worry?" attitude of Mad Magazine's Alfred E. Neuman.

We lagged in January as our peers and their clients appeared to be getting free handouts from generous Mr. Market. This pain was compounded when I was out seeing clients and had a polite 80-something year old woman tell me Intrepid was just too conservative for her. Looking back on that conversation, I have to wonder whether it was the proverbial bell ringing at the top.

Hardly a week later, with the 10-year Treasury yield jumping above 2.8% for the first time in four years along with rising inflation expectations, the CBOE Volatility Index (the "VIX"), nicknamed the "Fear Index," almost tripled in the span of two trading days, taking billions of dollars to "investment heaven" in the process.

How did this happen? The answer, unsurprisingly, boils down to good old-fashioned Wall Street greed. The VIX started out simply as a method of tracking the underlying implied volatility of options on S&P 500 companies. Over time it gained quite a following from traders and investors who wanted an easy, real-time proxy for market sentiment. But why should Wall Street be content just to *track* something when they could be *selling* it? Thus, over the last 5-10 years there has been an explosion of strategies and products linked to volatility, usually using a combination of futures, options, and other derivatives with the VIX as their underlying benchmark.

Investors, starved for yield from traditional sources for nearly a decade, piled into these newly packaged strategies under the faulty assumption that this was easy money. One of the most popular flavors was exchange-traded notes (ETNs) – basically IOUs from major banks that could be bought and sold on the open market – designed to roughly track the inverse of VIX. These "short-vol" products were predicated on the belief that conditions of low volatility would last indefinitely.

Sitting in front of me is a promotional email for a family of *leveraged* short and long volatility ETNs (as if 1x exposure wasn't risky enough) that includes three full pages of legal fine print indicating that the products are only for sophisticated investors. The lawyers go on to (1) warn would-be buyers not to treat the strategies as buy and hold investments, (2) recommend that they monitor their positions multiple times a day, and (3) note that the well-known major bank backing the notes could redeem them at any time, potentially at a large loss to the holder.

I hope you'll agree with me that these don't exactly sound like the hallmarks of a sound investment. But as we've learned in past bubbles and market cycles, no amount of fine print risk disclaimers will keep people from chasing performance, and short volatility was the hot trade of 2017 (with the exception of Bitcoin). One popular inverse VIX product with the fitting ticker XIV (VelocityShares Daily Inverse VIX ST ETN) returned 188% for its holders over the course of the year, drawing in millions of dollars from new buyers wanting a seat on the gravy train. Who would have thought that not just retail investors, but endowments, pensions, universities and professionals on Wall Street would be selling what they should have been buying (the possibility of higher volatility), in many cases with a scoop of leverage on top?

It was fun while it lasted. When the VIX spiked in early February, XIV and a handful of similar products that had been trading near all-time highs literally became worthless overnight and were liquidated. In my third quarter 2017 letter, I lamented this kind of behavior when I commented that "irrational decision making is rewarded [and] buyers of arcane complex strategies seem to reap all the profits." Leveraged trading in the VIX sure seems to qualify. The moral of the story? Risk matters most when it is least visible. R.I.P. short vol.

We didn't participate in any of the shenanigans above. However, we also didn't sail through these financial rapids to positive results, as much as I'd like to say we did. For the quarter ending March 31, 2018, the Intrepid Balanced Portfolio (the "Portfolio") decreased 3.41%, net-of-fees, compared to losses of 0.76% and 0.91%, respectively, in the S&P 500 Index and ICE BofAML High Yield Index.

To be clear, these short-term results are disappointing to us as a firm and to me as the lead portfolio manager of the Portfolio. The silver lining, though, is that our underperformance in the most recent periods was not driven by excessive risk-taking or exposure to the broader market downturns in February or March. Most of the Portfolio's decline in the first quarter was due to company-specific issues at a handful of businesses in which we own a stake. We believe these companies have long-term merit and trade for less than our conservative estimates of business value, but that is no guarantee against short-term price fluctuations. Normally, I like to lead off with recent successes, but in this instance, I think it would be more helpful to clients to understand the drivers of shorter-term negative performance.

Four of the largest detractors in the Portfolio for the quarter ending March 31, 2018 were Retail Food Group (ticker: RFG AU), Corus Entertainment (ticker: CJR/B CN), Patterson-UTI Energy (ticker: PTEN), and Net 1 UEPS Technologies (ticker: UEPS). Corus and RFG together were responsible for more than 60% of the Portfolio's decline since January and deserve further explanation.

Our thinking about Corus has been thoroughly documented by Jayme Wiggins in current and past Small Cap Portfolio commentaries, which are well worth a read. The Canadian media company's results in January, which included further declines in TV advertising and subscriber revenue, further eroded our confidence that the company will be able to adapt to the move away from traditional bundled cable in Canada. We reduced our exposure on the news and exited our position by the end of March.

Retail Food Group is an Australian franchisor of bakery, coffee, and quick service pizza restaurants and first entered the Portfolio in December. The company's stock has been pummeled by a series of negative media reports alleging mistreatment of franchisees by the parent company. We believe the allegations are overblown and distort the facts, but the company's image has suffered as management has done little to set the record straight.

The stock had already experienced more than a 60% decline over a two-week period when we established our position, but catching this falling knife has been more hazardous than we expected, as the shares declined further in the first quarter on

renewed media attacks and disappointing earnings. We still believe the underlying business is sound and mispriced, but we are conducting additional due diligence to increase our confidence level in the thesis.

The Portfolio's four largest contributors for the three-month period were Syntel (ticker: SYNT), Primero Minding 5.75% convertible bonds, FRP Holdings (ticker: FRPH) and Royal Mail PLC (ticker: RMG LN). The Primero converts, which we had purchased at distressed prices, are now trading near their face value after the company received a buyout offer from First Majestic Silver (ticker: AG), and we expect them to be retired at par value.

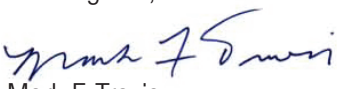
Please keep in mind that when buying companies that are out of favor, as we regularly do at Intrepid, securities that are a drag on performance in one measurement period are often contributors in subsequent periods as the market recognizes their underlying value. Such was the case a few years ago, when our handful of energy-related holdings weighed heavily on performance in late 2015 but rebounded and drove significant gains in 2016.

We have experienced this quirk, which stems in part from the industry norm of treating calendar months, quarters and years as self-contained measurement periods, many times over the last 23 years. Please try to have patience, as we believe our and your perseverance should be rewarded in the long run. I am more convinced than ever that discipline, patience, and common sense are both exceedingly rare qualities in this industry and the keys to success in it.

I would also remind you once again that I eat my own cooking. As co-investors with you in the Portfolio(s), my family and the Intrepid family share your hopes and fears, your satisfactions and frustrations as we travel this long road as investors together.

Thank you for entrusting us with your hard-earned capital; it is not a position we take lightly. If there is anything we can do to serve you better, please don't hesitate to call.

Best regards,



Mark F. Travis

President/CEO

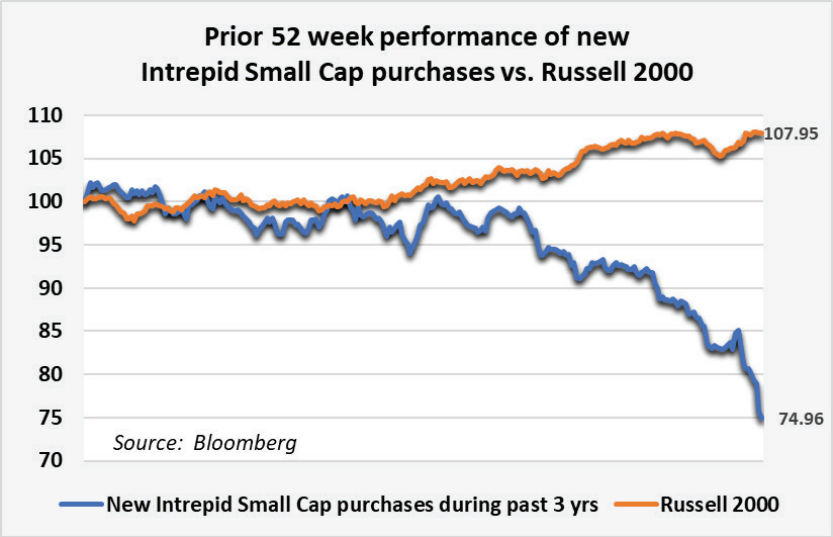
SMALL CAP PORTFOLIO – COMMENTARY BY JAYME WIGGINS, CFA, CIO, PORTFOLIO MANAGER

Friends in Low Places

The longer I write these letters, the more I realize how often I lean on music to convey my thoughts to you. And I'm not a musically-inclined person. I wasn't in chorus or band. I don't play an instrument. I'm not a gifted singer, and my wife says my recollection of lyrics is routinely off the mark. I never bought cassette tapes or CDs when I was younger, and I don't use iTunes or Spotify. Nevertheless, I like music. All kinds. I'm a music freeloader. I've absorbed enough music over my life by listening to the radio, movie soundtracks, and my brother's collection that it's easy for me to relate specific songs to my life. It goes without saying that I'm not unique in this regard. Music is a common currency of expression. I have found that nothing captures the wavelengths of an Intrepid investor better than country music.

"Friends in Low Places" was released by Garth Brooks in 1990 and is one of the most popular country songs of all time. I love it. It describes an uncouth fellow who shows up uninvited to his ex's wedding and proceeds to drown his sorrows in whiskey and beer. Huge party foul, but the tongue-in-cheek lyrics are instructive. In life, it's nice to have influential friends who can pull a string or two, but many folks aren't advantaged by a powerful social network. They're stuck associating John Q. Public and the so-called crumbs of society. This, for many, is a blessing in disguise.

Applied to the investing world, most investors take comfort in owning blue chips, FANGs, and highflying winners of the performance derby. This is natural behavior and has material benefits including owning many great businesses and outsourcing your stress by investing with the herd. Unfortunately, you often pay a big price for a problem-free investment. At Intrepid, our aim is to buy a good business at a good price. For the last five years, it has been tough to meet both criteria, especially since we are unwilling to pay up for uncertain growth. As a result, we have found ourselves investing more like Lady Liberty: *"Give me your tired, your poor, Your huddled masses yearning to breathe free."* We're bottom feeders with noble intentions. We want to make you money without exposing your portfolio to undercompensated risks. To accomplish that, we've gone hunting in the deepest, darker corner of the markets: the 52-week low list. We've made friends in low places.



*Time period is relative to purchase date and varies by security. Please see commentary for further

During the past three years, the Intrepid Small Cap Portfolio (the "Portfolio") purchased 11 new securities that comprised at least one percent of the Portfolio's assets.[1] Each of these positions was acquired within 20% of the security's 52-week low price. We started buying, on average, up 8% from the bottom and down 35% from the 52-week high. On the chart on the left, we show the average performance for these 11 securities in the year leading up to our initial purchase as compared to the performance of the Russell 2000. The period doesn't correspond to a specific year, since different stocks were acquired at different times.[2] However, it does show you the average price trend for our purchases in the months, weeks, and days *leading up to* our initial activity. As you can see, we buy out-of-favor stocks.

Please allow me to end the suspense: *we rarely buy at the absolute bottom.* Usually, stocks keep falling after we buy them. Many investors would prefer to wait for a demonstrated recovery before stepping into a sticky situation. We are not those investors. We buy when we see value and we kick ourselves if we have to pay more for something that we thought was cheap at lower prices, unless the reason for the delay was the time required to complete our research.

We can anticipate the arguments against this approach. First, a 52-week period is an arbitrary time horizon. Agreed. Just because a stock is close to its 52-week low doesn't mean it has been kicked to the curb by investors. We ran the same analysis going back three years before our initial purchase, and the core findings were the same. Our basket had declined more than 20% over the three years before our initial acquisition, while the Russell had increased 35% over the same relative stretch.

Are we foolishly specializing in catching falling knives to make ends meet in a challenging period? I don't think we're fools, but we are playing with sharp objects. Scavenging the new lows list lacks glamour and can be dangerous and stressful, but it's also potentially rewarding. Of the 11 new names the Small Cap Portfolio has acquired during the past three years, eight are higher today than they were when we started buying. Four of these have been taken over by other companies. Three names are trading lower than our cost basis; however, all three were purchased in December 2017—an insufficient time frame for our theses to play out, in our opinion. In fairness, the market's upward trajectory has provided a great deal of underlying support to most stocks. However, we believe the firms plumbing new lows over the relevant time period are more likely to be even lower today than the typical guilt-free stock. We're satisfied with our overall outcome in sorting through these maligned businesses because we think it's created a portfolio with more idiosyncratic risk and less correlation with the market.

1 ASEI, WPM, CUB, STRZA, PCN 5.75%, DDC, SYNT, GHL, UEPS, HALL, RFG AU

2 For example, to compute the price change for the last data point on the chart, we average the 11 individual changes on the day we bought them as well as the average percentage change of the Russell 2000 on the 11 different days we started buying each holding.

The last argument against rummaging through the bargain bin is that price is only one factor in the investment equation. Price without value means nothing. Surveying stocks with weak price action is *only* a starting point for us, and every purchase we make is predicated on a stock's price trading at a discount to our estimated intrinsic value. The valuation is determined by a considerable amount of research. Sometimes we are wrong. Often, we are early. But we are never careless.

The markets were rattled in the first quarter from concerns over trade wars and sputtering market leadership from technology megacaps. Major indexes ended the period down mid-to-high single digit percentages from their all-time highs but essentially flat year-to-date. As female country singer superstar Shania Twain once said, *"That don't impress me much."* For those kind, patient souls who have stayed committed to the Small Cap Portfolio through this cycle, the understandable reaction on down days is to inquire whether we are finally putting money to work. However, when index levels were 5% to 10% lower on the way up (i.e. two months ago), we weren't finding much value then either. Valuations have been at all-time extreme levels. We buy stocks when we think we can acquire them for less than fair value, not because they are falling. We're keeping in mind the famous order from the battle of Bunker Hill: *"Don't fire until you see the whites of their eyes."* Even with the assistance of the Hubble Telescope, an all-out assault on our cash reserves feels premature. The Portfolio ended the first quarter with 81.8% of its assets held in cash equivalents.

Our first quarter performance was poor. The Portfolio declined 1.97%, net-of-fees, in the three months ending March 31, 2018, compared to a -0.08% change in the Russell 2000. For the same period, the Morningstar Small Cap Index decreased 1.58%, while the S&P Smallcap 600 increased 0.57%. If you extended the measurement period by an extra trading day, the Portfolio's performance is roughly in line with these indexes year-to-date. Nevertheless, we don't want to sugar coat a poor outcome for a cash-heavy portfolio. Our first quarter decline was disappointing and is primarily attributable to disappointing results for two holdings, Retail Food Group (ticker: RFG AU) and Corus Entertainment (ticker: CJR/B CN), which were partly offset by great news for a third holding, Primero Mining (CUSIP 74164WAB2).

We discussed Corus in our last letter to you. In January, the company released results for its fiscal first quarter. Corus' television advertising revenues are falling along with its Canadian peers. Since the company acquires most of its content from U.S. media companies, we think Corus will have a tougher time navigating a future transition to a direct relationship with consumers. We sold our position immediately after the report. At the beginning of this letter when I discussed music, I noted that I wasn't in chorus. Unfortunately, I was in Corus. I underestimated the speed with which digital venues would seize advertising share from Canadian TV networks and overestimated Corus's bargaining power after its acquisition of Shaw Media.

When viewed individually, Retail Food Group (RFG) accounted for almost all the Portfolio's loss this year. We purchased the Australian restaurant operator in December amidst a hailstorm of controversy surrounding the firm's relationships with its franchisees. In our Q417 letter, we remarked that *"the stock has recovered some lost ground already."* That victory dance was premature. RFG's shares were walloped when the company reported semi-annual results in early March. We have rarely witnessed such one-sided media coverage of a company. RFG has legitimate issues, but its management has done a remarkably bad job in addressing false accusations. For example, one of the top news programs in Australia, ABC News, recently claimed that RFG's franchisees are being gouged, citing as evidence that fees from franchisees were up 27% in 2017, while the sales revenue from those franchisees' outlets was down 8.4%.[3] They implied that RFG is collecting more fees from franchisees even though the franchisees' own sales were slipping sharply.

The 27% growth referenced in the article is the change in RFG's overall revenue, not "fees from franchisees" as described by ABC News. RFG's sales rose 27% in 2017 because the company acquired Hudson Pacific Corporation and formed a new Commercial Food Services division. The vast majority of Hudson's customers are independent restaurants, cafes, and other foodservice companies that are outside of the RFG franchise network. ABC also noted that sales revenue from franchisees were down 8.4%. This is incorrect and misleading. The 8.4% decrease reflects the overall revenue that RFG received from its Bakery Cafe, QSR Systems, and Coffee Retail Systems segments. This includes corporate stores owned by RFG. Moreover, the decline in these revenues is directly affecting the parent. As franchisees close stores, RFG receives less revenue from royalties. The franchisees' domestic same store sales averaged +0.9% in fiscal 2017. While this comp isn't great, it's a long way from the harrowing declines implied by the slanted media coverage.

[3] Robertson, Andrew. "Franchisees hope Senate inquiry will stop them being ripped off by unscrupulous franchisors." *ABC.net.au/news.* 29 March 2018. Web. Accessed 2 April 2018.

The barrage of incendiary press coverage has created a self-fulfilling prophecy where the company is struggling to enlist new franchisees. In hindsight, as we were contemplating our entry into the stock, we could have better factored in the potential for adverse publicity to weigh on the business model. We are currently performing additional diligence on this name and will have more to report in our next letter.

In addition to Corus Entertainment and Retail Food Group, the Portfolio's third largest detractor in the first quarter was Net 1 UEPS Technologies (ticker: UEPS), a South African payment solutions, transaction processing and financial technology company that we also acquired in December. The stock has been burdened for several years by the anticipated loss of Net1's large legacy welfare distribution contract with the South African government. However, the Constitutional Court of South Africa confirmed the government was unable to take over the distribution of cash payments to welfare recipients by a March 31, 2018, deadline, and it ordered UEPS to continue facilitating these payments for at least six more months. The pricing for these efforts has not been settled.

Meanwhile, another South African court ordered UEPS to return $27 million in payments it received in 2014. These payments related to a government request for UEPS to re-register 11 million additional social grant beneficiaries beyond the planned 9.2 million recipients. According to the company, these additional registrations led to the discovery of a significant number of ghost beneficiaries and duplicate grants and saved the South African government more than 2 billion rand per year for the last five years ($850 million USD at current exchange rates). UEPS is appealing the verdict.

The South African government is a circus, and UEPS is one of its favorite whipping boys, even though the company has performed its role far better and cheaper than the government ever did. Sadly, the merits of the situation won't necessarily drive the outcome. Fortunately, it is our view that UEPS' current stock price is fully supported by the firm's balance sheet and assets outside of South Africa. Any positive developments for operations inside of that country could drive substantial upside to our estimated intrinsic value. In February, the firm's Chairman purchased a significant number of UEPS shares on the open market.

The Portfolio's major success of the quarter was the proposed takeover of Primero Mining by First Majestic Silver (ticker: AG) on January 12, 2018. This announcement sent the price of our convertible notes from the low 60's to near par value. As we predicted in our Q317 letter, Wheaton Precious Metals (ticker: WPM) agreed to reduce the streaming burden on Primero's San Dimas mine in return for establishing a relationship with a stronger partner, First Majestic. The deal has been approved by Primero's shareholders and is expected to close later this month after it is cleared by Mexico's anti-trust agency.

We are confident that the Portfolio's inauspicious start to the year is not related to recent market tremors. The names we own often march to the beat of their own drum. In some cases, share price declines cannot be explained by the market or company-specific developments. The Portfolio's largest holding, Baldwin & Lyons (ticker: BWINB), sold off throughout the final weeks of the quarter on no news. Baldwin ended Q1 trading at 80% of its tangible book value and 11x the average earnings it produced in the five years through 2016. In contrast, the Russell 2000 is selling for 105x trailing unadjusted earnings. Baldwin is near its 52-week low because of investors' recency bias. The company posted an underwriting loss in 2017 due to trends affecting all commercial auto insurers. We believe adverse developments peaked last year and Baldwin will deliver improved results going forward. If we are wrong, then we own a firm likely trading at a discount to its theoretical liquidation value. We'll make friends in low places like Baldwin all day long.

In March 2016, the Intrepid Small Cap Portfolio's corresponding mutual fund strategy was profiled in an article in *The Wall Street Journal* that described how mutual funds have held progressively less cash over time.[4] The author described portfolio managers of high cash funds like ours as being *"rarer than white rhinos."* On March 20, 2018, the world's last male northern white rhino died in Kenya at the age of 45.[5] Gulp. While it was nice to be compared to the rare, impressively hulking, and powerful horned animal from Africa, even in the context of recent underperformance, we think many of Intrepid's investing habits are more aptly related to another creature—the Periplaneta Americana—also known as the mighty cockroach. Nimble. Check. Opportunistic feeder. Check. Repulsive to many. Check. Indestructible. We'd like to think so! Thank you for your investment.

4 Zweig, Jason. "Cash is Now a Sin." *The Wall Street Journal*. 11 March 2016.
5 Nuwer, Rachel. "Sudan, the Last Male Northern White Rhino, Dies in Kenya." *The New York Times*. 20 March 2018.

DISCIPLINED VALUE PORTFOLIO – COMMENTARY BY MARK TRAVIS, CEO, PRESIDENT, PORTFOLIO MANAGER

"Risk is what's left over when you think you've thought of everything."

— Carl Richards

The last quarter of 2017 and the first quarter of 2018 showed the side effects of a long, smooth bull market and a generous dose of investor greed and complacency. Cryptocurrencies were ground zero – the price of Bitcoin soared from $1,000 at the beginning of the year to near $20,000 at the peak, and small companies with little or no connection to crypto could add "Blockchain" to their name and see their share price triple overnight. The investor mania is perhaps less extreme or visible outside the crypto world, but still indicative of why we at Intrepid Capital think caution is in order.

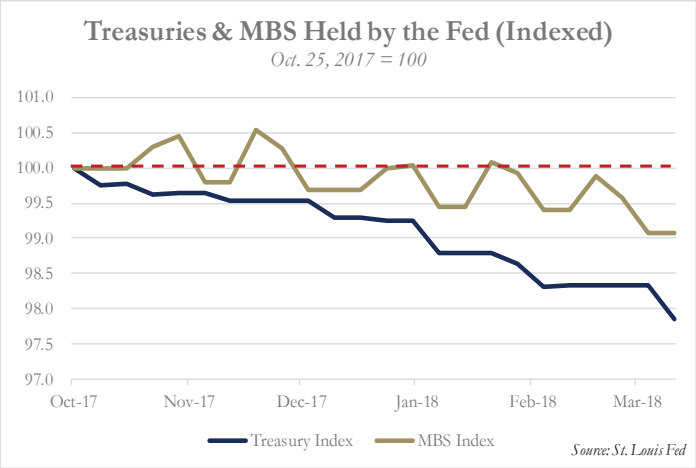
The new year started with a roar – equity indices such as the S&P 500 Index were up 5% or better in the first three weeks of January. That all started to change with both a sharp increase in rates on the 10-Year Treasury Note, along with a better employment number than the market expected (yes, apparently good news was bad news in this case). Poof! Quicker than you can say "abracadabra," money in strategies devoted to selling volatility went to *Never-Never Land.* This wealth destruction occurred literally overnight in several exchange-traded note (ETN) products. The many speculators – and that is what they were, because merely hoping volatility stays low does not make one an investor – in these strategies, who had been patting themselves on the back for their phenomenal performance, had to learn the hard way that "easy" money is never really as easy as it seems.

As Paul Harvey used to say on his radio program, "And now for the rest of the story." The tough part is we don't know the rest of the story yet. Clients ask us all the time what we think the markets will do, but as the Danish proverb goes, "It is difficult to make predictions, especially about the future." If we had a crystal ball, we'd probably have more money to manage than we knew what to do with.

What we do know is that U.S. asset prices continue to be historically high by most measures. Some, such as the cyclically adjusted P/E (CAPE) and unadjusted median P/E, are still at levels similar to the 2000 and 2007 peaks even after the minor market losses in February and March. Greatly inflated prices by no means guarantee an immediate market crash, but they are highly correlated with disappointing results for investors over the next 5-10 years. This principle is as true for rental houses and shopping centers as it is for stocks – low purchase prices generally result in high returns, and high purchase prices generally result in low returns.

Beyond the normal economic forces typical of an aging expansion, the market must contend with monetary policy as a headwind going forward as well. Not only is the Federal Reserve steadily hiking rates now, with two more increases telegraphed for this year and three expected in 2019, but it also began slowly unwinding its balance sheet last November, the effects of which are just beginning to be felt in the Treasury market.

Since late 2014, the Fed has maintained a stable $2.5 trillion balance of Treasuries and $1.8 trillion of mortgage-backed securities acquired over the preceding five years of Quantitative Easing (QE). The graph to the right shows the percentage change in both from November, when the Fed became a net seller, through the end of March. So far, $69 billion of securities have matured without being reinvested. The Fed has signaled its intent to accelerate the wind-down over the coming year. Our contention is this: If QE was explicitly designed to support asset prices, what does that imply now that we're beginning "normalization," or Quantitative Tightening? Stay tuned.



We think the cyclical shift into ETFs and indexes since the financial crisis is likely to end in a trail of tears. We will likely not be fully immune to a major market downturn, but rest assured that your team at Intrepid has done our best to construct portfolios of "all-weather tires" that can ride out the ups and downs of the market. In the face of potential macro headwinds – inflation, interest rates, Fed tightening, trade war fears, high valuations – we continue our search for high-quality, temporarily mispriced businesses, wherever our analyst team can find them around the globe.

Speaking of global investments, the Intrepid Disciplined Value Portfolio (the "Portfolio") has the flexibility to have 25% of its investments outside of the United States, which has proven advantageous as valuations in many parts of the world don't look as painfully expensive as those in the U.S. The largest contributor to the Portfolio for the quarter ending March 31, 2018 was Royal Mail (ticker: RMG LN), the recently privatized mail service in the United Kingdom. Royal Mail's share price has been pressured for most of the past year by uncertainty around negotiations with its labor union. In late January, the stock rebounded more than 20% after the company announced favorable agreements with the union on its pension plan and several other important items.

Other top contributors for the three-month period include Western Digital (ticker: WDC), Tapestry (ticker: TPR), Teradata (ticker: TDC), and Northern Trust (ticker: NTRS).

The largest detractor for the three-month period was Canadian media company Corus Entertainment (ticker: CJR/B CN), which has been struggling to grow its advertising revenue despite a merger with Shaw Media last year that made it the largest TV network owner in Canada. After a string of disappointing quarterly results that undermined our confidence in management's promises of growth, we exited our position in the first quarter. For more context, I recommend reading the last several Small Cap Portfolio commentaries, which lay out our thesis and follow the evolution our thinking on the company. The other top detractors to the Portfolio for the quarter were Net 1 UEPS Technologies (ticker: UEPS), Patterson-UTI Energy (ticker: PTEN), Leucadia National (ticker: LUK) and Baldwin & Lyons (ticker: BWINB).

In the first quarter of 2018 the Portfolio declined 3.29 %, net-of-fees, with the majority of the loss again contributed by Corus, compared to a 0.76% loss in the S&P 500. The Portfolio ended the period with 34.5% in cash.

While the results for the most recent period were disappointing to us and likely to you as clients, I would point out that the short-term underperformance was, in our view, due largely to unfortunate timing of company-specific issues in one or two holdings, rather than exposure to the broad market corrections we saw in February and March. We will continue to search for solid companies that we believe are undervalued, with the goal of protecting your hard-earned capital and increasing your investment portfolio. Thank you for your continued support.

The Net Return % for the Disciplined Value portfolio was stated incorrectly in the prior version of this commentary for the period ending March 31, 2018. This version has been revised to show the correct Net Return % for all periods stated for the Disciplined Value portfolio.

INCOME PORTFOLIO – COMMENTARY BY JASON LAZARUS, CFA, PORTFOLIO MANAGER

Two-thousand eighteen started off with a bang. The broader equity markets continued to march higher through most of January with even more momentum than experienced in 2017. January was shaping up to be one of the best months for the equity markets in years before giving back some of the gains in the last few sessions of the month. Even so, the monthly performance was stellar.

Cryptocurrency investors, on the other hand, were not enjoying themselves nearly as much. In our fourth quarter commentary we jokingly remarked that the cryptocurrency euphoria was resembling the meteoric rise of the tech stocks at the end of 1999. The crypto party seems to have suffered a fate similar to the tech bubble. After crossing $18k in December, Bitcoin declined nearly 70% in the next two months. Other less recognized cryptocurrencies, or "alt-coins" fell even more. Perhaps the crypto market has become a forward indicator. In early February, U.S. stock markets experienced the first meaningful declines in two

years. The S&P 500 was down more than 1% for the first time in 94 trading sessions. In 2017, the S&P 500 closed up or down more than 1% on just seven occasions. This occurred 23 times in the first quarter of 2018. The Dow and the S&P 500 gave back all of January's gains and more, ending the quarter in the red, while the Nasdaq managed to remain positive.

Fixed income generally had a tough quarter as well. The Fed hiked its benchmark rate another 25 basis points in March to 1.75%. The 10-year Treasury yield rose from 2.41% to nearly 3% before settling at 2.74% on March 31, 2018, negatively impacting longer-duration bonds. Investment grade corporates suffered further blows as credit spreads rose from 90 basis points, the lowest level seen in a decade, to 117 basis points on March 31, as measured by the ICE BofAML US Corporate Index (the "Corporate Index"). The post-credit crisis average spread is 154 basis points.

More germane to our focus on the high-yield market, Tesla's bonds sank after a smattering of bad news. We discussed the firm's high-yield issuance in our Q317 letter, noting how investors gobbled up the $1.8 billion issue at the lowest yield ever for the rating and maturity. Since then, the company reduced its output projections for the all-important Model 3. If that weren't enough, a fatal crash occurred near the end of March involving the famed Autopilot feature. Moody's downgraded the issue to Caa1 from B3 shortly thereafter. Tesla is highly reliant on the capital markets to fund its massive cash burn, and the 200 basis point increase in the firm's unsecured funding rate is going to sting when it needs to tap the markets.

Elsewhere in junk bond land, I was saddened when the news broke that Toys "R" Us would be liquidated. I'm sure I am not alone when I say that I remember the place to be magical and would beg my parents to bring me. I also share a last name with the founder, Charles Lazarus (no relation), who sadly passed away just days after the liquidation was announced. Toys "R" Us...we will miss you.

Despite these headline stories, the high-yield market seemed relatively unfazed by the gyrations of the equity markets. We have seen little change in the spreads of businesses we seek to lend to, although absolute yields have ticked up. The ICE BofAML High Yield Index (the "HY Index") declined 0.91% in the quarter ended March 31, 2018. The shorter-duration ICE BofAML 1-5 year B-BB Cash Pay High Yield Index (the "1-5 year B-BB Index") gained 0.14%. Longer-duration investment grade securities felt the impact of higher government bond yields to a greater degree. The Bloomberg Barclays US Aggregate Index (the "Barclays Aggregate Index") lost 1.46% in the quarter. Spread widening combined with higher Treasury yields resulted in a 2.20% loss for the Corporate Index. The Intrepid Income Portfolio (the "Portfolio") declined 0.27%, net-of-fees, in the quarter ended March 31, 2018.

While we welcomed the return of volatility in the equity and debt markets, our performance in the first quarter of 2018 left us with mixed emotions. We are quite happy with how our fixed income holdings performed in an environment where safe-haven government bond yields rose sharply. All but a few of our corporate bond holdings produced positive returns and outperformed the indexes in the quarter. Additionally, our Primero Mining convertible bonds jumped approximately 50% after the company announced fellow junior miner First Majestic (ticker: AG) would buy the company and retire the bonds at par. The deal is still pending and is expected to close later this month. Primero was the Income Portfolio's largest contributor in the first quarter of 2018. Regis's 5.5% notes due 12/02/2019 were the Portfolio's second largest contributor for the period.

On the other side of the coin, our small allocation to equity securities more than offset the positive performance of our fixed income holdings. At the end of 2017, the Income Portfolio held three equity securities – Baldwin & Lyons (ticker: BWINB), Corus Entertainment (ticker: CJR/B CN), and Retail Food Group (ticker: RFG AU), each accounting for roughly 1% of the Portfolio's assets.

Corus hit us first with its earnings release in early January. Despite management's implicit reiteration of guidance at a conference in November, advertising revenues sank 4% in the quarter ended November 30, 2017. Management has been consistently over-promising and under-delivering since the acquisition of Shaw Media. We had been giving them the benefit of the doubt due to Corus's strong position in women's and children's television networks. We were operating under the assumption that consistently strong ratings would eventually lead to advertising revenue stabilization. However, the earnings report was the last straw. Our patience has worn thin. While Corus still trades at what appears to be a ridiculously low multiple of forward operating income

at 7x, even a multiple this low might not be justified if advertising revenue cannot be stabilized. We decided to exit our position immediately after the earnings report. The share price started drifting lower last fall, which made Corus a meaningful detractor in the first quarter of 2018 and in the first six months of the Portfolio's fiscal year.

Our loss on Corus pales in comparison to the largest detractor of the quarter. The Portfolio would have posted a positive return in the quarter if it weren't for our ownership of Retail Food Group ("RFG"). The position was discussed in our last letter under different circumstances. We purchased the shares near the end of the fourth quarter after the stock was hammered as a result of several negative media reports on RFG's treatment of its franchisees. The allegations were overly sensationalist, in our opinion. We got lucky and timed our purchases almost perfectly (or so we thought). RFG's shares rocketed higher in the final days of 2017 and contributed nicely to the Portfolio's performance. Unfortunately, we celebrated a bit too soon. The stock was obliterated in March after releasing semi-annual results. The media coverage has been heavily one-sided, and in some cases the allegations are verifiably false. Management has yet to address the accusations in a meaningful way, which has started to impact the business model by making it more difficult to sell new franchises. The Portfolio's strategy with regard to equity holdings has been to significantly limit the position size, typically to a fraction of our target corporate bond weights. This approach softened the blow. The Portfolio's weight in RFG is now quite small. The team is completing additional due diligence on the company, and we plan to report our findings to you next quarter.

The Income Portfolio had four large corporate bond positions that were called or matured in the first quarter. We also rebalanced several positions and exited our long-held stake in Corus Entertainment common stock, as discussed. The proceeds were partially redeployed into short-term paper of investment-grade issuers that we believe offer attractive yields in excess of government securities. Additionally, we participated in the refinancing of American Outdoor Brands' 5.000% notes that were due to mature on July 15, 2018. The new notes pay a 5% coupon and mature on August 28, 2020. The terms of the new notes are virtually identical to the old.

The Portfolio initiated a position in the convertible bonds of Dorel Industries (ticker: DII/B CN) in late 2017. Dorel is a manufacturer of consumer goods that owns several highly-recognizable brand names. In its childrens product line, Dorel sells car seats, strollers, swings, and safety products under the Cosco, Safety 1st and Maxi-Cosi brand names, among others. Dorel Sports is one of the world's largest manufacturers of bicycles. The firm owns the Schwinn, Mongoose, GT, and Cannondale brand names. The third leg of the stool is the home products business, which makes ready-to-assemble furniture, baby cribs, futons, step stools and ladders.

Dorel's kids and bicycle businesses have struggled over the last few years, but we believe signs of stabilization are emerging. Despite the sub-par operating performance, the firm has maintained a relatively conservative capital structure. Dorel's cash flows can be lumpy due to timing of working capital needs, but the firm has a long history of generating positive cash flow even in recessionary conditions. We expect free cash flow will be used to pay down debt. In addition, we believe the founding family members' significant economic stakes in Dorel, and possibility of their retirement in the next few years, provide further credit support. Management is highly incentivized to avoid taking inordinate risks. The convertible notes are yielding 5.5% and must be redeemed by May 31, 2019. We believe the credit is attractive even ignoring the convertible option.

Portfolio activity was otherwise subdued, although the recent market volatility has provided us with some interesting ideas that we hope to report to you in future letters. We are diligently searching for attractive opportunities to take credit risk while limiting the Portfolio's duration, which as of March 31st was just over one year. Thank you for your investment.

INTERNATIONAL PORTFOLIO – COMMENTARY BY BEN FRANKLIN, CFA, PORTFOLIO MANAGER

"Lucy! You got some 'splainin to do!"

— Quote incorrectly attributed to Ricky Ricardo, *I Love Lucy*[6]

The volatility monster, which has been hiding for years, popped its head out this quarter to see what's going on in the world. For now, he is only slowly being awakened. He was tickled awake by potential inflation, as well as increased interest rates. While the monster did not cause widespread panic, his awakening was enough to send markets into negative territory for the quarter. It didn't start this way, however. January was full of ebullience, with the MSCI EAFE Index (the "Index") climbing 5%. Since the end of January, the Index fell by 6.4%, resulting in performance for the quarter declining by 1.53%.

This is the kind of environment we expect to do well in, but we were unsuccessful during the quarter. The Intrepid International Portfolio (the "Portfolio") declined 4.06%, net-of-fees, during the quarter, which is more than the Index. As the quote at the top describes, we've got some "'splainin to do." First, we believe one quarter is far too short of a period for evaluation. We believe this is the most important item to understand—a long-term perspective is imperative. Second, the inferior performance was dominated by a few positions that fell precipitously in the quarter. These three positions dragged the Portfolio down by nearly 6%; otherwise, our performance would have been positive for the quarter. To summarize our thinking, we do not believe the business values of these companies fell anywhere near the rate of their stock prices. In many cases, we have added to our positions and feel the portfolio is well-positioned.

We usually start with the good news – the contributors. Due to the underperformance during the period, we'll begin by ripping off the band-aid. Our three largest detractors in the quarter were Retail Food Group (ticker: RFG AU), Corus Entertainment (ticker: CJR/B CN), and Dundee Corp (ticker: DC/A CN). The Portfolio's largest contributors were Primero Mining's 5.75% Convertible Notes (CUSIP: 74164WAB2), LifeHealthcare Group (ticker: LHC AU), and Royal Mail PLC (ticker: RMG LN).

Retail Food Group was purchased in the fourth quarter of 2017 and went on to be a top contributor for that period. This quarter, the holding was responsible for almost 3% of the Portfolio's decline. The company, which is in the fairly simple business of franchising small restaurants, has come under significant pressure regarding the way they treat their franchisees. Some of the media attention is likely warranted; however, so far it has been only one-sided, with no defense from management in the public eye. This has created a self-fulling prophecy with the shares trading down significantly and consistently. We believe there is more value in the company than the market is giving it credit for. For example, the company has spent more than AUD $450 million on acquisitions since 2007, yet the entire enterprise can be purchased today for nearly AUD $400 million. These acquisitions cause some complexity in the reported financials, which we continue to diligently evaluate. We look forward to updating our investors on the progression of our thinking regarding this investment.

Corus has been struggling with advertising revenues as consumers continue to make the shift to digital. While this phenomenon is having an adverse impact on the company and will likely continue, the company has control of the majority of the ratings for both women and children in Canada. We believe this will allow Corus to survive the shift, albeit at lower profitability. Additionally, the company's trailing 12-month free cash flow yield is over 20%, and the company's dividend yield is 16%. This cash generation helps compensate us throughout the shift.

The Dundee common shares were a detractor once again. The holding company has tangible net assets worth over CAD $9 per share, which includes public securities they could easily liquidate. Nevertheless, the shares trade below CAD $2 per share. There are two reasons for this. The first is that the company is burning cash. Many of their holdings are not producing cash flow currently, leading to a drain on the net asset value. The second is that the company is controlled by the Goodman family. Without the ability for any outside shareholder to potentially control the company, existing shareholders are left with

6 This quote is known as a false memory—a recollection of an event that did not actually occur. Many people, myself included, falsely remember this quote. In fact, the quote was incorrectly used in the movie *Fools Rush In*. Another interesting false memory from *Star Wars:* "Luke, I am your father."

an asset that has been declining in value. The Goodman family, which collectively has a 20% economic interest, has felt the pain as the market value has plummeted over 80% since 2014. This decline of over $600 million in market value means their 20% economic interest has fallen by over $100 million – Ouch! The upside is that they should be highly incentivized to right the ship. Recently, David Goodman stepped down, and his brother Jonathan is now pulling the strings. He is completing a full review of all their holdings, and we eagerly await his assessment. Despite the Goodmans' 20% economic interest, they have full voting control. If this were not the case, we would expect plenty of potential buyers of the firm to step up and potentially plug the holes. If we change our minds and think Jonathan is not up to the task, our only option will be to vote with our feet.

Now for the top contributors. In January, Primero Mining announced that First Majestic Silver Corp (ticker: AG) would be taking over the company. The announcement meant that our convertible notes would, in all likelihood, be paid off at par. The notes were priced in the 60s, leading to a significant gain in the period to near par. The takeover should occur shortly, and we expect to be paid off in full when it closes.

LifeHealthcare Group announced in February that a private equity firm, Pacific Equity Partners, had entered a scheme to purchase the company for a 46% premium to the closing price the day before the announcement. LifeHealthcare remains in the portfolio until its likely takeout date in May.

Prior to the first quarter, the share price of Royal Mail had been weighed down by pension negotiations with their union. On January 26th, the company announced that they had agreed with the union on several items, including the pension. The outcome was positive for shareholders, helping send the shares up during the period.

The few holdings that are dragging down performance are masking some of the above mentioned positive developments. In February, we reviewed the number of holdings we have owned since the inception of the Portfolio that have been bought out by another firm. We were surprised to see that one-quarter of all holdings had been taken out. The average premium over our weighted average cost was 60%. Some of these investments took time to work out and were negative contributors to performance at one time. During the time these holdings were negative contributors, we looked like fools for holding them. We feel the same way about many of our holdings negatively contributing to performance today – we look like fools for now, but we also see the opportunity. This industry requires patience, and, at times like this, more than average. However, we are thankful that Mr. Market has offered to sell shares at these low prices. In the meantime, we will continue with our stoicism and thank our investors for theirs. Thank you for your investment..

SELECT PORTFOLIO – COMMENTARY BY JAYME WIGGINS, CFA, CIO, PORTFOLIO MANAGER

Our first quarter performance was poor. The Intrepid Select Portfolio (the "Portfolio") declined 3.85%, net-of-fees, in the three months ending March 31, 2018. The Russell 2000, Morningstar Small Cap Total Return, and S&P MidCap 400 indexes returned -0.08%, -1.58%, and -0.77%, respectively, for the same time period. Our first quarter decline was disappointing and is primarily attributable to disappointing results for two holdings, Retail Food Group (ticker: RFG AU) and Corus Entertainment (ticker: CJR/B CN), which were partly offset by great news for a third holding, Primero Mining (CUSIP 74164WAB2). The Portfolio had 13.8% of its assets in cash as of March 31, 2018, which was near the lows for our cash over the quarter. Cash was above our 10% target as we reduced certain positions and did not have suitable opportunities to reinvest the capital.

We discussed Corus in our last letter to you. In January, the company released results for its fiscal first quarter. Corus' television advertising revenues are falling along with its Canadian peers. Since the company acquires most of its content from U.S. media companies, we think Corus will have a tougher time navigating a future transition to a direct relationship with consumers. We sold our position immediately after the report. I underestimated the speed with which digital venues would seize advertising share from Canadian TV networks and overestimated Corus' bargaining power after its acquisition of Shaw Media.

When viewed individually, Retail Food Group (RFG) accounted for almost all the Portfolio's loss this year. We purchased the Australian restaurant operator in December amidst a hailstorm of controversy surrounding the firm's relationships with its franchisees. In our Q417 letter, we remarked that *"the stock has recovered some lost ground already."* That victory dance was premature. RFG's shares were walloped when the company reported semi-annual results in early March. We have rarely witnessed such one-sided media coverage of a company. RFG has legitimate issues, but its management has done a remarkably bad job in addressing false accusations. For example, one of the top news programs in Australia, ABC News, recently claimed that RFG's franchisees are being gouged, citing as evidence that fees from franchisees were up 27% in 2017, while the sales revenue from those franchisees' outlets was down 8.4%.[7] They implied that RFG is collecting more fees from franchisees even though the franchisees' own sales were slipping sharply.

The 27% growth referenced in the article is the change in RFG's overall revenue, not "fees from franchisees" as described by ABC News. RFG's sales rose 27% in 2017 because the company acquired Hudson Pacific Corporation and formed a new Commercial Food Services division. The vast majority of Hudson's customers are independent restaurants, cafes, and other foodservice companies that are outside of the RFG franchise network. ABC also noted that sales revenue from franchisees were down 8.4%. This is incorrect and misleading. The 8.4% decrease reflects the overall revenue that RFG received from its Bakery Cafe, QSR Systems, and Coffee Retail Systems segments. This includes corporate stores owned by RFG. Moreover, the decline in these revenues is directly affecting the parent. As franchisees close stores, RFG receives less revenue from royalties. The franchisees' domestic same store sales averaged +0.9% in fiscal 2017. While this comp isn't great, it's a long way from the harrowing declines implied by the slanted media coverage.

The barrage of incendiary press coverage has created a self-fulfilling prophecy where the company is struggling to enlist new franchisees. In hindsight, as we were contemplating our entry into the stock, we could have better factored in the potential for adverse publicity to weigh on the business model. We are currently performing additional diligence on this name and will have more to report in our next letter.

In addition to Corus Entertainment and Retail Food Group, the Portfolio's third largest detractor in the first quarter was Net 1 UEPS Technologies (ticker: UEPS), a South African payment solutions, transaction processing and financial technology company that we also acquired in December. The stock has been burdened for several years by the anticipated loss of Net1's large legacy welfare distribution contract with the South African government. However, the Constitutional Court of South Africa confirmed the government was unable to take over the distribution of cash payments to welfare recipients by a March 31, 2018, deadline, and it ordered UEPS to continue facilitating these payments for at least six more months. The pricing for these efforts has not been settled.

Meanwhile, another South African court ordered UEPS to return $27 million in payments it received in 2014. These payments related to a government request for UEPS to re-register 11 million additional social grant beneficiaries beyond the planned 9.2 million recipients. According to the company, these additional registrations led to the discovery of a significant number of ghost beneficiaries and duplicate grants and saved the South African government more than 2 billion rand per year for the last five years ($850 million USD at current exchange rates). UEPS is appealing the verdict.

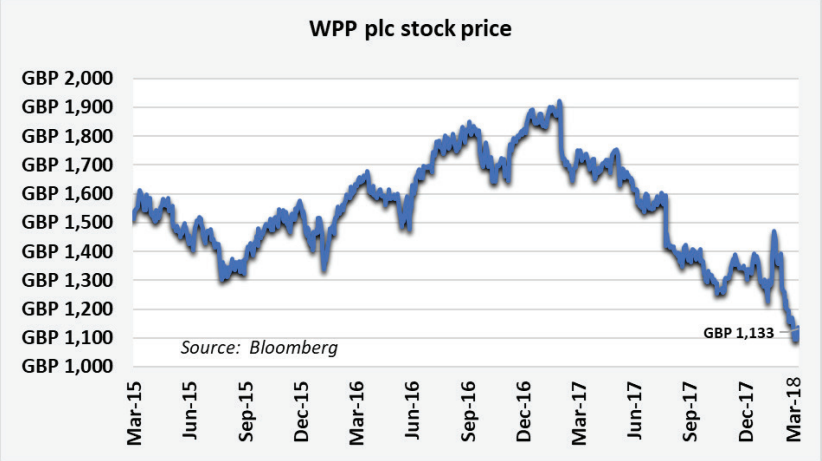
The South African government is a circus, and UEPS is one of its favorite whipping boys, even though the company has performed its role far better and cheaper than the government ever did. Sadly, the merits of the situation won't necessarily drive the outcome. Fortunately, it is our view that UEPS' current stock price is fully supported by the firm's balance sheet and assets outside of South Africa. Any positive developments for operations inside of that country could drive substantial upside to our estimated intrinsic value. In February, the firm's Chairman purchased a significant number of UEPS shares on the open market.

7 Robertson, Andrew. "Franchisees hope Senate inquiry will stop them being ripped off by unscrupulous franchisors." *ABC.net.au/news*. 29 March 2018. Web. Accessed 2 April 2018.

The Portfolio's major success of the quarter was the proposed takeover of Primero Mining by First Majestic Silver (ticker: AG) on January 12, 2018. This announcement sent the price of our convertible notes from the low 60's to near par value. As we predicted in our Q317 letter, Wheaton Precious Metals (ticker: WPM) agreed to reduce the streaming burden on Primero's San Dimas mine in return for establishing a relationship with a stronger partner, First Majestic. The deal has been approved by Primero's shareholders and is expected to close later this month after it is cleared by Mexico's anti-trust agency.

The next two largest positive contributors to the Select Portfolio's performance were Western Digital (ticker: WDC) and Syntel (ticker: SYNT). Western Digital reported good results in January and continues to trade at undemanding multiples. The stock's performance remains tied to perceptions surrounding NAND flash memory pricing. Syntel's fourth quarter results exceeded management's guidance by a wide margin. For the first time in seven quarters, the firm's revenue grew year-over-year. The company was able to improve performance despite an ongoing reduction in business from American Express, which was previously Syntel's largest customer relationship.

The Portfolio purchased one new position during the first quarter: WPP plc (ticker: WPP LN). WPP is the world's largest advertising agency. The firm is comprised of over 160 different subsidiaries including storied names like Young & Rubicam and Ogilvy & Mather that perform a variety of services ranging from creative advertising, media buying (negotiating price and placement of advertisements), market research panels, and public relations. WPP's stock fell 40% from last year's high, as investors have grown concerned by the company's slowing sales and fears of ad agency disintermediation from digital players like Google and Facebook. In 2017, WPP was impacted by reductions in ad spending from major consumer packaged goods companies and account losses from AT&T and Volkswagen. In our view, WPP and its agency peers will remain important members of the advertising industry value chain and should be able to grow modestly. We acquired the shares at a high single-digit multiple to estimated free cash flow.



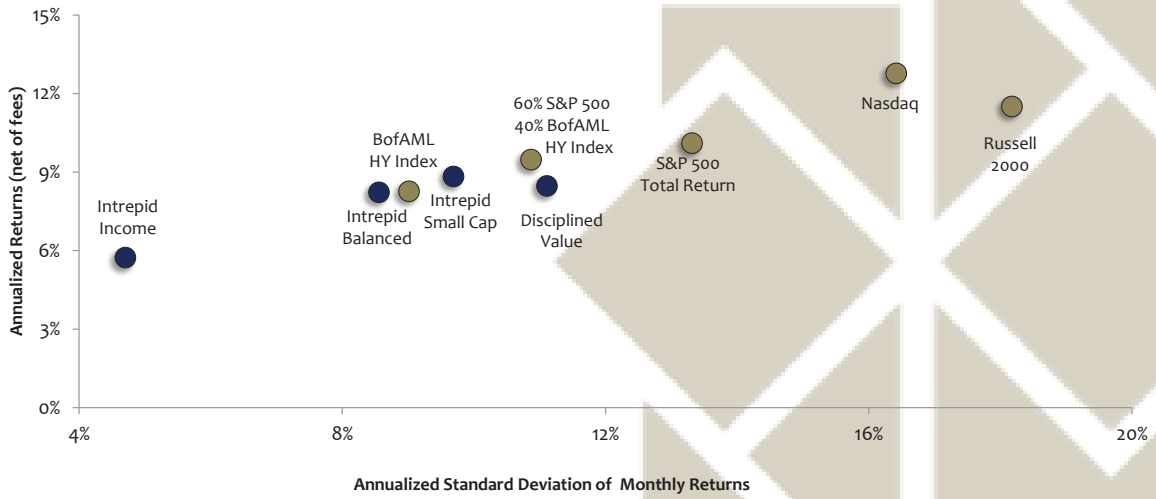
We are confident that the Portfolio's inauspicious start to the year is not related to recent market tremors. The names we own often march to the beat of their own drum. In some cases, share price declines cannot be explained by the market or even by company-specific developments. The Portfolio's largest holding, Baldwin & Lyons (ticker: BWINB), sold off throughout the final weeks of the quarter on no news. Baldwin ended Q1 trading at 80% of its tangible book value and 11x the average earnings it produced in the five years through 2016. In contrast, the Russell 2000 is selling for 105x trailing unadjusted earnings. Baldwin is near its 52-week low because of investors' recency bias. The company posted an underwriting loss in 2017 due to trends affecting all commercial auto insurers. We believe adverse developments peaked last year and Baldwin will deliver improved results going forward. If we are wrong, then we own a firm likely trading at a discount to its theoretical liquidation value. Thank you for your investment.

Risk Adjusted Returns

Intrepid Capital

Trailing 15 Year Risk/Return

March 31, 2003 to March 31, 2018



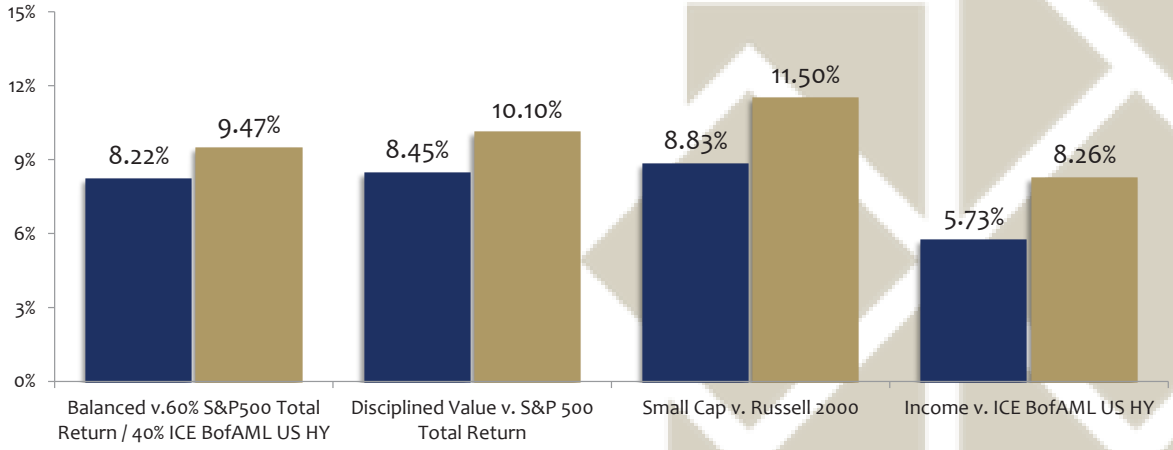
- Past performance is no guarantee of future results. Intrepid composite returns are presented net of investment advisory fees and all returns are presented annualized for the 15-year period ending March 31, 2018. Returns reflect the reinvestment of dividends and other earnings. The volatility of the listed benchmarks may differ materially from the volatility of any Intrepid composite. As of December 31, 2004, the firm changed its fixed income benchmark from the Salomon High Yield Short-Term Index to the Merrill Lynch High Yield Master II Index which, through name changes is currently the ICE BofAML US HY.

Annualized Performance

Intrepid Capital

Trailing 15 Year Performance Returns

March 31, 2003 to March 31, 2018



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