Intrepid Capital Funds
the constant pursuit of value

INTREPID INCOME FUND

1st QUARTER 2014 COMMENTARY

1Q 2014

MARCH 31, 2014

PERFORMANCE

	Inception Date	Total Return Qtr.	Total Return YTD	Total Return 1 Year	Average Annualized Total Returns as of March 31, 2014 3 Year	5 Year	Since Inception
Intrepid Income Fund - Inst.^	08/16/10	1.47%	1.47%	3.97%	4.66%	8.11%	4.85%
BofA Merrill Lynch High Yld Master II Index		3.00%	3.00%	7.53%	8.71%	18.19%	10.14%
Barclays US Aggregate Bond Index		1.84%	1.84%	-0.10%	3.75%	4.80%	5.21%
BofA Merrill Lynch Corporate Index		2.97%	2.97%	1.45%	6.04%	9.89%	6.45%

^Institutional Class shares of the Intrepid Income Fund commenced operations on August 16, 2010. Performance shown prior to August 16, 2010 (5-Year and Since Inception) reflects the performance of Investor Class shares, which commenced operations on July 2, 2007, and includes expenses that are not applicable to and are higher than those of Institutional Class shares.

Effective January 31, 2014, the Investor Class shares of the Fund were closed, and any outstanding Investor Class shares

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.*

Institutional Class shares of the Intrepid Income Fund commenced operations on August 16, 2010. Performance shown prior to August 16, 2010 (2008-2010) reflects the performance of Investor Class shares, which commenced operations on July 2, 2007, and includes expenses that are not applicable to and are higher than those of Institutional Class shares.

Per the prospectus, the Fund's annual operating expenses (gross) for the Institutional Share Class is 0.98%. The Fund's Advisor has contractually agreed to waive a portion of its fees and/or reimburse expenses such that the total operating expense (net) is 0.90% through 1/31/15, respectively. In addition, the Fund's Advisor has contractually agreed to waive a portion of its fees and/or expenses such that the total operating expenses, excluding Acquired Fund Fees and Expenses, (expense cap) does not exceed 0.90% through 1/31/15, respectively. Otherwise, performance shows would have been lower.

April 4, 2014

Dear Fellow Shareholders,

Fixed income assets rallied across the board in the quarter ended March 31, 2014, due to both spread compression and lower risk-free rates. The ten-year U.S. Treasury rate declined to 2.72% from 3.03% at the end of calendar year 2013. The Barclays U.S. Aggregate, which is a proxy for the broader investment-grade fixed income market, rallied 1.84% after struggling last year. Corporate bonds performed even better as spreads compressed to levels not experienced since the summer of 2007. This led to impressive performances by investment-grade and high-yield corporate bonds, which returned 2.97% and 3.00%, respectively, in the period ending March 31, 2014, as measured by the BofA ML US Corporate Index and the BofA ML High Yield Master II Index (the "Index").

The high-yield market has seen significant inflows this year as investors continue to search for yield. The asset class is flooded with cash, and managers with a full-invested mandate are forced to put money to work regardless of price levels, pushing bond prices up further. This constant need to put money to work has distorted the high-yield bond market by allowing distressed businesses to kick the can down the road, rather than restructure as a free market system would obligate them to do. When companies that should fail are bailed out by yield-hungry investors, those who have taken the most risk have reaped the rewards. At Intrepid, we manage our fixed income assets differently. We do not analyze technical factors such as fund flows, nor do we allocate capital based on expected market default rates. Most importantly, we have no mandate to be fully invested, and therefore only put money to work when we believe we are being compensated to assume the risks. When we cannot find a suitable investment candidate, we will hold what most investors seem to hate: cash. Due to the dearth of opportunities, we have been holding quite a lot of cash, which averaged 38% of assets in the quarter. The Intrepid Income Fund's (the "Fund") cash position was also 38.8% at the end of the quarter, but we expect this to increase, absent a pullback in bond prices, as several of our holdings are likely to be called in coming months. Our significant cash position and higher-quality bond portfolio resulted in a wide gap in performance between the Fund and the Index. The Fund returned 1.47% in the quarter and 2.97% in the six

month period ending March 31, 2014, while the Index returned 3.00% and 6.60% in the same periods.

The Fund had no material detractors to performance in the quarter. PetroQuest Energy 10% due 9/01/2017 and Smith & Wesson 5.875% due 6/15/2017 were top contributors to the Fund's quarterly performance. Both issues represent large holdings and outperformed the high-yield benchmark. We see several reasons the PetroQuest bonds may have been bid up. The company's near-term credit quality has been boosted by higher natural gas prices and the rolling off of a contract to sell gas at unfavorable prices. Additionally, the company has expanded its hedging program, reducing some of the inherent commodity risk. Lastly, we believe yield-to-call buyers have become interested in the issue due to the upcoming September call date. As for our Smith & Wesson holding, the company continues to increase revenue despite an overall industry decline from recent highs. The company's balance sheet remains lightly levered, which is required for this holding as we view gun industry sales at above normalized levels.

Top Ten Holdings	(% of net assets)
EPL Oil & Gas, 02/15/2018, 8.250%	4.8%
Smith & Wesson, 6/15/2017, 5.875%	4.6%
Northern Oil and Gas, 06/01/2020, 8.000%	4.4%
Regis, 12/05/2017, 5.750%	4.1%
Cott Beverages, 09/01/2018, 8.125%	3.9%
Compass Minerals, 06/01/2019, 8.000%	3.9%
PetroQuest Energy, 09/01/2017, 10.000%	3.7%
Brown Shoe, 05/15/2019, 7.125%	3.4%
Swift Services, 11/15/2018, 10.000%	3.1%
ManTech, 04/15/2018, 7.250%	3.0%

Top ten holdings are as of March 31, 2014. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security.

AuRico Gold (ticker: AUQ) has a small convertible bond issued by subsidiary Northgate Minerals. The 3.5% convertible notes represent a fairly new position that was established in the fall of 2013, and were the top contributor to the Fund's performance in the quarter ended March 31, 2014. The bonds jumped in early March when AuRico announced its intention to redeem the notes at a substantial premium with proceeds from a new longer-dated issue. We analyzed the new bond in depth, but concluded we weren't being compensated adequately for the credit risk and long 2022 maturity. We weren't the only ones with this opinion. Demand for the issue was weak, and substantial changes were made to attract investors. The company shortened the maturity date by two years, increased the bonds' priority in the capital structure from senior to second lien, and offered the bonds at a discount to par. We decided to participate in the altered deal, and together with secondary market purchases were able to accumulate a 2.5% position in the new 7.75% second lien notes due April 1, 2020.

In addition to the new AuRico Gold notes, we purchased small positions in two businesses we have followed for several years; Oshkosh 8.5% due 3/01/2020 (ticker: OSK) and two Rent-A-Center bonds (ticker: RCII). Our largest new position is PHI Inc 5.25% due 3/15/2019 (ticker: PHII). We first became involved in PHI in late 2012 and subsequently built up the position over the next several months. We outlined our thesis on the company in our quarterly letter for the period ending September 30, 2013. PHI issued new notes late in the most recent quarter, and offered to repurchase the old notes, which we elected to do. We were able to purchase the new notes at what we believe to be attractive prices for a business with a solid credit profile and tangible assets.

On the sales side, two of our large positions were repurchased by the issuers; PHI Inc, as mentioned above, and Scotts Miracle Gro 7.250% due 1/15/2018 (ticker: SMG). The repurchase of the Scotts bonds was expected. We also exited our position in WWE common stock (ticker: WWE), for a solid gain. WWE is discussed in more detail in the Small Cap commentary. Lastly, we decided to sell our holdings in Texas-based Swift Energy's 8.875% notes due 1/15/2020, which gives us the opportunity to delineate how we think about selling when a business has deteriorated.

Swift Energy is a small-cap energy exploration and production business (E&P) with core assets in the prolific Eagle Ford shale in South Texas. About a year ago, we identified Swift as a potentially attractive bond holding due to its average leverage and significant undeveloped, but highly valuable, oil and gas reserves. Our view was that the reserves easily covered the company's debt even if energy prices were to weaken, and we believed the bonds compensated us well given the risks. Since we first purchased the notes, our valuation of the assets protecting our investment has declined. Additionally, our confidence in management to execute on its plans has deteriorated. Going further, we now have serious questions regarding management's integrity.

In the last year, Swift has twice attempted to monetize assets, both through a joint venture and an asset sale, the proceeds of which would be used to reduce debt. In the first case, a joint venture in the key Eagle Ford properties was abandoned for the sale of other properties,

presumably because no joint venture partner would sign on under terms that were attractive to Swift's management. In the second case, management put its Central Louisiana assets up for sale in lieu of the joint venture. The bid deadline was initially in November 2013, and on the Q313 conference call held in late October management said it was "pleased with the progress thus far" and anticipated bids in the fourth quarter with a deal closing in Q114. As we rolled into 2014 with no announcement, our confidence in the management team had dwindled to almost nothing, and we highly doubted a deal could be done on favorable terms. We concluded that nothing positive would come by holding through the fourth quarter earnings report, and sold the notes prior to the earnings release. Our suspicions proved to be correct, and Swift's stock sank when management did not announce a deal and stated it would seek *another* joint venture for natural gas assets in South Texas. These and other issues, including skepticism about the reserve audit and related party transactions, led us to question management's integrity and ability to execute.

We should note that even with the issues described, we still made money on our investment in Swift's bonds. However, making or losing money on an investment does not necessarily equate to success or failure, in our opinion. **At Intrepid, we believe the focus should be on the process, not the outcome.** We feel strongly that process-driven investing is the only way to produce repeatable results over the long-term. To paraphrase Nassim Nicholas Taleb in his book *Fooled by Randomness*, if you put enough monkeys in front of typewriters, one of them will eventually pound out the *Iliad*. But would you bet money that our literary primate would write the *Odyssey* next?

To close, we would like everyone to know that the Fund's Investor Class shares have been converted to the Institutional Class, and the Investor Class has been closed. This action will reduce the total operating expense paid by Investor Class owners to 90 basis points. We have also reduced the investment minimum of the Institutional Class to $2,500. This is our commitment to offer the product you desire at a reasonable price. Thank you for your investment.

Sincerely,

Jason Lazarus, CFA
Co-Lead Portfolio Manager

Ben Franklin, CFA
Co-Lead Portfolio Manager

Mutual fund investing involves risk. Principal loss is possible. Investments in debt securities typically decrease in value when interest rates rise. The risk is generally greater for longer term debt securities. Investments by the Fund in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher rated securities. The Fund is non-diversified, meaning it may concentrate its assets in fewer individual holdings than a diversified fund. Therefore, the Fund is more exposed to individual securities 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 Bank of America Merrill Lynch High Yield Master II Index is Merrill Lynch's broadest high yield index, and as such is comparable with the broad indices published by other investment banks. Bank of America Merrill Lynch US Corporate Index is an unmanaged index of U. S. dollar denominated investment grade corporate debt securities publicly issued in the U.S. domestic market with at least one year remaining term to final maturity. Barclays Capital U.S. Aggregate Bond Index is an index representing about 8,200 fixed income securities. To be included in the index, bonds must be rated investment grade by Moody's and S&P. You cannot invest directly in an index.

Yield-to-Call means that the issuer of the bond can redeem the bond prior to maturity by paying the call price, whichever is greater than the face value of the bond, to the bondholder. Basis Point is a unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument.

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

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