Intrepid Capital Funds
the constant pursuit of value

INTREPID ENDURANCE FUND

1ST QUARTER 2016 COMMENTARY

1Q 2016

MARCH 31, 2016

PERFORMANCE

	Inception Date	Total Return Qtr.	Total Return YTD	Total Return 1 Year	Average Annualized Total Returns as of March 31, 2016 3 Year	5 Year	10 Year	Since Inception
Intrepid Endurance Fund - Inv.	10/03/05	2.16%	2.16%	-3.51%	1.42%	3.18%	8.85%	8.70%
Intrepid Endurance Fund - Inst.	11/03/09	2.26%	2.26%	-3.17%	1.69%	3.45%	-	7.02%
Russell 2000 Index		-1.52%	-1.52%	-9.76%	6.84%	7.20%	5.26%	6.39%^

^Since Inception returns are as of the fund's Investor Class inception date. Since the inception date of the Institutional Class, the annualized return of the Russell 2000 Index is 12.53%.

Performance data quoted represents past performance and does not guarantee future results. *Investment returns and principal value will fluctuate, and when sold, may be worth more or less than their original cost. Performance current to the most recent month-end may be lower or higher than the performance quoted and can be obtained by calling 866-996-FUND. The Fund imposes a 2% redemption fee on shares held for 30 days or less. Performance data does not reflect the redemption fee. If it had, returns would be reduced.*

Per the prospectus, the Fund's annual operating expenses (gross) for the Investor Share Class is 1.42% and for the Institutional Share Class is 1.17%. 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 1.40% and 1.15% through 1/31/17, respectively. Otherwise, performance shown would have been lower.

April 5, 2016

Janet Yellen's Playlist

Defying Gravity ("Wicked" soundtrack)

I'm through with playing by
The rules of someone else's game
Too late for second guessing
Too late to go back to sleep
It's time to trust my instincts
Close my eyes, and leap…

It's time to try defying gravity
I think I'll try defying gravity
And you can't pull me down

I'm through accepting limits
'Cause someone says they're so
Some things I cannot change
But 'til I try, I'll never know
-Sung by Elphaba, aka The Wicked Witch of the West

Dear Fellow Shareholders,

Are central bankers wicked megalomaniacs or well-intentioned public servants? Janet Yellen, Greenspan and Bernanke before her, and their international ilk have plenty of cheerleaders. Wall Street sings their praises. First they argued the Fed had to adopt extraordinary measures to help rescue the banks in 2008 to prevent a depression. The extraordinary has become the expected. Now, over seven years later, we're inching toward negative interest rates,

sending stocks to near-record levels. Certain academics and government bureaucrats have proposed an outright ban on cash. Their apparent goal is to trap you inside of a banking system that plunders your savings in order to support the welfare state and ensure the capital markets continue "defying gravity."

Some might call this arrangement an unholy alliance between the very rich (stocks stay high) and very poor (get free stuff), but that's unfair. Citizens all across the wealth spectrum are primarily bystanders to the biggest financial experiment in history. The Federal Reserve, European Central Bank, Bank of Japan, and others are finished "playing by the rules of someone else's game." They no longer accept zero as a lower limit for interest rates, even though the time value of money, an immutable law of finance, dictates that a dollar today is worth more than a dollar in the future. And what about the fact that years of easy money have delivered the weakest economic recovery in history? For the bankers who believe they can steer markets and economies alike, it's too late for second guessing. They close their eyes, and leap.

Top Ten Holdings	(% OF NET ASSETS)
Corus Entertainment, Inc. - Class B	4.4%
EZCORP, Inc., 06/15/2019, 2.125%	4.4%
Pitney Bowes Intl Pfd Stock, 6.125%	3.8%
Tetra Tech, Inc.	2.9%
Cubic Corp.	2.6%
Amdocs Ltd.	2.0%
Sandstorm Gold Ltd.	1.9%
Silver Wheaton Corp.	1.9%
Dundee Corp. - Class A	1.7%
Baldwin & Lyons, Inc. - Class B	1.6%

Top ten holdings are as of March 31, 2016. Fund holdings are subject to change and are not recommendations to buy or sell any security.

Quantitative easing and pushing interest rates negative are desperate acts. History has shown that extreme monetary policy rarely spares us from economic pain—it only defers it. Since retiring as Fed Chair, Ben Bernanke is paid speaking fees of up to $400,000 per event, and he is on the payroll of Citadel, one of the largest, most levered high-frequency trading hedge funds. When central bankers close their eyes and leap, they have parachutes. The U.S. economy does not. Attempts to eliminate the business cycle lead to distortions and busts.

Almost nine years have elapsed since the beginning of the last bear market, which was accompanied by the implosion of the housing bubble. The recent release of *The Big Short* on film provides a timely reminder of the willingness of Wall Street to perpetuate bubbles for financial gain. *The Big Short* is the story of a small, intrepid group of investment professionals who bet against the U.S. housing market. At the time, this was an almost unheard of position. In fact, the story's protagonist, Michael Burry, had to ask the banks to create a new security that would allow him to express his negative views on home prices, specifically those owned by subprime borrowers.[1] The banks did, for a price. When subprime homeowners stopped making mortgage payments, Burry expected the banks to begin marking higher the value of his short positions. They didn't because they sat on the other side of the trade. The banks were on the hook for huge payouts to Burry as mortgage delinquencies rose.

Eventually, Burry scored huge gains after his short positions were appropriately marked. But this didn't occur until the banks had offloaded their risk. The banks kept the price of anti-housing bets artificially low until they could leave someone else holding the bag. This was a maddening period for Burry. He knew he was right, but this wasn't reflected in his sagging investment performance. Clients questioned his sanity and asked for their money back. Burry stood firm.

Mark Twain said, *"History doesn't repeat itself but it often rhymes."* We're hearing music; are you? We're not contending that the housing bubble is reincarnated, although home prices in hot markets (New York/San Francisco/Vancouver) have rocketed to new highs and the government is promoting low down payment loans again. We think the bubble is even broader today than it was a decade ago. It extends across global asset classes for stocks, bonds, real estate, art—almost anything that offers a yield or the potential for capital gains. The value of the U.S. housing stock is a gargantuan $28.5 trillion. However, the size of global stock and bond markets exceeds $200 trillion. With global trade and corporate earnings in decline and valuation multiples extended, the evidence suggests that stock prices should be dropping. But they're defying gravity. You can't hold them down.

[1] The technical jargon is Credit Default Swaps (CDS) on Subprime Mortgage-Backed Securities (MBS)

Each week, Jacksonville's local newspaper, the *Florida Times Union*, reports real estate transactions in the area. Last week, there were three deals that disclosed prior selling prices. Two of these properties are located within five miles of my home, an area I know well.

> *The Josephs Group of Orangeburg, N.Y., paid $25.7 million for the Publix-anchored Medical and Merchants Center of San Pablo at 14444 Beach Blvd. Most of the 156,153-square-foot center on 23 acres was built in 1993, though other buildings were added later. It last sold for $12 million in 2013.*
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> *Publix Supermarkets has purchased the Harbour Place Shopping Center that it anchors at 13170 Atlantic Blvd. for $24 million. The 103,552-square-foot center on 18 acres was built in 1990 and last sold for $6.5 million in 2007.*
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> *Lexerd Capital Management of Summit, N.J., paid $8 million for the San Marco Village apartments at 2165 Dunsford Terrace. The 106-unit complex was built in 1973 and last sold for $3.73 million in 2012.*

The implied annual rate of appreciation on these deals is between 16% and 29%—far above stock market gains over the same time periods. Fortunes have been made in commercial real estate. And, we suspect, fortunes will be lost.

The U.S. stock market sputtered as 2016 began, hitting its lows in February before staging the greatest intra-quarter comeback in history. At one point, the Russell 2000 Index of small caps was down 15.93% year-to-date, but it finished the quarter off 1.52%. The Intrepid Endurance Fund (the "Fund") was off 3.43% at its worst point in the quarter, but recovered to end up 2.16% as of March 31, 2016. The Fund's cash, which ended the quarter at 68.6% of assets, helped cushion the downside during January and early February. However, the Fund's holdings had good performance in the three month period, contributing to the positive return for the Fund versus losses for the small cap benchmarks.

Several of the Fund's biggest losers from 2015 were its largest contributors in the first quarter, including Corus Entertainment (ticker: CJR/B CN), Sandstorm Gold (ticker: SAND), and Silver Wheaton (ticker: SLW). On January 13th, Corus announced the acquisition of Shaw Media for $2.65 billion. This transaction ties Corus with Bell Media as the largest owner of television networks in Canada and makes Corus the undisputed heavyweight in channels targeting women and kids. It gives the company tremendous heft in dealing with advertisers and negotiating with distributors over carriage fees. Strategically, it's a win, in our book, as there are significant synergies between the two businesses. Financially, it stretches Corus's balance sheet, but the company's robust free cash flow should enable quick deleveraging. The stock initially sold off on the deal, which included a dilutive equity component. However, it recovered into quarter end as investors began embracing the strategic rationale of the merger alongside Corus's extremely low valuation multiple.

Sandstorm Gold and Silver Wheaton participated in the rally in gold and silver prices off of multiyear lows. Silver Wheaton's shares struggled last year because the Canadian government is arguing that the company owes it a significant amount of back taxes. We think many investors have fully factored a negative outcome for the tax dispute into their models for the company, and they moved past this issue to focus on Silver Wheaton's solid execution and the stock's discounted multiple versus comparable firms.

In our view, Sandstorm Gold has been the most inexpensive precious metals streaming company, often trading at multiples that are half those of its peers. A couple of years ago, the vast majority of Sandstorm's revenue came from junior miner counterparties, and a few of them had weak balance sheets or above-average breakeven costs. Sandstorm has dramatically upgraded the quality of its counterparty portfolio through streaming and royalty acquisitions, and the company has also benefited from the acquisition of its partners by larger mining firms. Today, over three quarters of

Sandstorm's cash flow comes from major and mid-tier miners. We believe the firm's counterparty risk profile is as good as larger streaming companies like Franco Nevada, Silver Wheaton, and Royal Gold.

The Fund's largest detractors in Q1 were EZCORP convertible bonds (CUSIP 302301AB2), Unit Corp. (ticker: UNT), and American Science & Engineering (ticker: ASEI). EZCORP's converts have tracked the stock lower, but we think the risk/reward equation is more favorable for the debt, which finished the quarter yielding 18%. We believe the underlying value inherent in EZCORP's high-quality pawn shops has been obscured by several factors, including poor corporate governance, declining gold scrapping profits, and a material accounting restatement at a payroll withholding business in Mexico. Much of the debt consolidated onto EZCORP's balance sheet is non-recourse to the company and is tied to a money-losing subsidiary. Once management rids itself of this headache, a cleaner investment story should emerge. We continue to believe our bonds are covered under all plausible scenarios. The current enterprise value of EZCORP, marking the bonds to market, implies a per store value for EZCORP's pawn locations that is approximately one-quarter the level of its publicly-traded, acquisitive peers.

Unit Corp. fell in price again in the first quarter, bucking the energy sector trend. This may have been related to the company's high exposure to natural gas, which performed worse than oil prices in Q1. We believe at least half of U.S. small cap energy companies would face a restructuring before Unit, given the firm's better balance sheet at the beginning of the slide in commodity prices. Although oil is off the lows, prices are still far too weak to allow the industry to heal. We expect oil and natural gas to eventually recover further, however, the timing of a rebound has become increasingly crucial to investment positioning. If our estimated recovery is off by a year, many more companies could be forced to restructure than we originally anticipated. We currently have minimal exposure to the sector.

American Science & Engineering's stock (ticker: ASEI) dropped sharply in the first quarter after the company reported weak results. ASEI specializes in x-ray inspection and screening systems used to combat terrorism, drug trafficking, weapons smuggling, and illegal immigration. In today's world, you'd think they'd be knocking it out of the park, but results have suffered from troop withdrawals from Iraq and Afghanistan. We think the worst is behind the company, which has cutting-edge technology. We added to our small stake in the quarter, when the company's enterprise value was equivalent to three years' worth of its research & development spending. We think shareholder value would be maximized if ASEI were part of a larger defense technology firm.

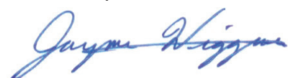
The Fund sold out of one position and purchased one new name in the first quarter. We exited our remaining stake in Ingram Micro (ticker: IM) on February 17th as the stock exceeded our intrinsic value estimate. This proved to be comically bad timing, as the company was bought out later that same day, robbing the Fund of about 29 basis points of additional performance.

We established a new holding in Starz (ticker: STRZA) after it declined on disappointing earnings guidance from Lions Gate, a major Starz shareholder and potential corporate suitor. Starz operates one of the leading premium television networks in the U.S. Since 2010, the company has shifted its lineup from movies to original programming, in hopes of mimicking the success of HBO and Showtime. Starz' bargaining position with cable distributors has generally improved as the network now features successful original series such as *Black Sails, Outlander,* and *Power,* and is not just a reseller of feature films. On the other hand, distributors are consolidating and Starz may alienate them by recently offering its network over-the-top. Furthermore, premium channels face a growing competitive threat from Netflix, which is aggressively investing in original programming. We think the endgame for Starz is a union with another media company like Lions Gate, which owns 14% of Starz' equity. Absent a deal, we still believe Starz is a viable standalone business with stable subscription-based revenues and an attractive free cash flow stream. We purchased the stock for less than 8x operating income but subsequently reduced our position after the shares quickly rebounded.

Last June, Bank of Japan (BOJ) Governor Haruhiko Kuroda spoke at a conference. The BOJ appears even more committed to financial arson than the Federal Reserve, given Japan's ailing economy, aging demographics, and mountainous debt. Kuroda said that central bankers needed to operate with a positive attitude and conviction, which he likened to the Peter Pan Principle: *"the moment you doubt whether you can fly, you cease forever to be able to do it."* Japan is past the point of no return, in our judgment. Statements like Kuroda's demonstrate the direness of that country's predicament. We can only hope that our Fed soon realizes they have averted a speedbump but are careening toward a concrete wall. A week ago, on March 30, 2016, Richard Fisher, Former Dallas Fed President, was featured on CNBC. During his time at the Fed, Fisher was often a lone critic of financial bailouts and QE. He commented on today's Fed: *"They're living in constant fear of a market reaction. This is not the way you manage central bank policy."* Well said.

Thank you for your investment.

Sincerely,



Jayme Wiggins, CFA
Intrepid Endurance Fund Portfolio Manager

Mutual fund investing involves risk. Principal loss is possible. The Fund is subject to special risks including volatility due to investments in smaller companies, which involve additional risks such as limited liquidity and greater volatility. The Fund is considered non-diversified as a result of limiting its holdings to a relatively small number of positions and may be more exposed to individual stock volatility than a diversified fund. The Fund may invest in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods.

Prior to June 26, 2015, the Fund was named the Intrepid Small Cap Fund.

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 a 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. Enterprise Value equals market capitalization plus debt minus cash. Basis Point is a unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument. Quantatative Easing (QE) is a monetary policy used by central banks to stimulate the economy when standard monetary policy has become ineffective.

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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