Intrepid Capital Funds
*the constant pursuit of value*

# INTREPID INCOME FUND

## 1Q 2016

1ST QUARTER 2016 COMMENTARY

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 | Since Inception |
|---|---|---|---|---|---|---|---|
| Intrepid Income Fund - Inst.^ | 08/16/10 | 1.42% | 1.42% | -1.29% | 0.52% | 2.29% | 3.44% |
| Barclays US Aggregate Bond Index | | 3.03% | 3.03% | 1.96% | 2.50% | 3.78% | 4.89% |
| BAML HY Master II Index | | 3.25% | 3.25% | -3.99% | 1.75% | 4.71% | 6.49% |
| BAML US Corporate Index | | 3.92% | 3.92% | 0.98% | 3.03% | 5.15% | 5.84% |

^Institutional Class shares of the Intrepid Income Fund commenced operations on August 16, 2010. Performance shown prior to August 16, 2010 (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 were converted into Institutional 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.*

Per the prospectus, the Fund's annual operating expenses (gross) for the Institutional Share Class is 0.96%. 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 1/31/17. Otherwise, performance shown would have been lower.

April 4, 2016

Dear Fellow Shareholders,

To the casual observer, the capital markets' performance in the first quarter of 2016 would appear relatively uneventful. Nearly every major asset class posted moderately positive returns in the period. International equity indexes were mixed and most domestic benchmarks reported low single digit gains. However, the quarter was anything but routine. One can get a sense of how volatile the quarter was by simply looking at the significant outperformance posted by "safe-haven" assets. Long-duration government bonds and our favorite "Pet Rock" (gold!) experienced large gains in the first quarter.

Risk assets fluctuated wildly in what could be a called "A Tale of Two Markets." The first tale, running essentially half-way through the period, is one of fear and despair. Oil prices cratered to 12-year lows in early 2016, touching nearly $25 per barrel. Stocks crashed into bear market territory. High yield credit performed similarly. Through February 11th, the Bank of America Merrill Lynch High Yield Master II Index (the "BAML HY Master II Index") had declined 5.14% on the back of a 4.64% drop in 2015. As was the case in 2015, the damage was significantly greater in the most heavily indebted issuers and those operating in commodity industries. The Bank of America Merrill Lynch High Yield Energy Index (the "High Yield Energy Index") sank 18.98% through February 11th, and distressed bonds, as measured by the Bank of America Merrill Lynch US Distressed High Yield Index (the "Distressed"), lost 14.49%. There were significant outflows from the asset class during this period, and the new issue market was effectively shut down.

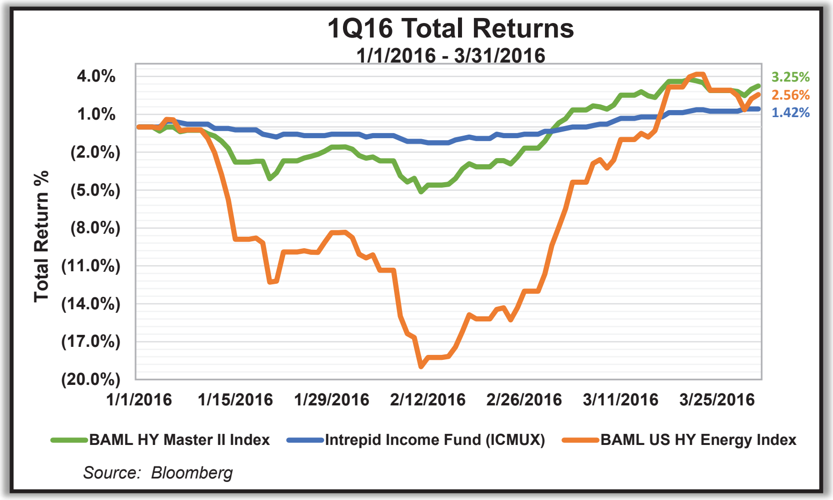
The second tale is one of euphoria and complete faith in central bank omnipotence. Following rumors of a potential meeting of Organization of the Petroleum Exporting Countries (OPEC) members to discuss production cuts, crude oil

| Top Ten Holdings | (% OF NET ASSETS) |
|---|---|
| Regis, 12/02/2019, 5.500% | 5.3% |
| Pitney Bowes Intl Pfd Stock, 6.125% | 4.3% |
| EZCORP, 06/15/2019, 2.125% | 4.1% |
| Multi-Color, 12/01/2022, 6.125% | 3.8% |
| Tech Data, 09/21/2017, 3.750% | 3.7% |
| Alamos Gold, 04/01/2020, 7.750% | 3.6% |
| Cash America Intl, 05/15/2018, 5.750% | 3.6% |
| Hanesbrands, 12/15/2020, 6.375% | 3.4% |
| First Cash Financial Svc, 04/01/2021, 6.750% | 3.3% |
| PHI, 03/15/2019, 5.250% | 2.9% |

Top ten holdings are as of March 31, 2016. Fund holdings are subject to change and are notrecommendations to buy or sell any security.

jumped the most in years and regained $30 per barrel. The rally was solidified when St. Louis Federal Reserve President James Bullard watered down the likelihood of four interest rate hikes in 2016. Mr. Bullard concluded that it would be "unwise to continue a {rate} normalization strategy" as inflation expectations continued to fall. This provided the "all clear" investors were looking for. Risk assets staged a dramatic comeback and managed to eke out gains in the first quarter.

High-yield bonds performed brilliantly in the second half of the quarter, rising in 23 of the 34 trading days from February 12th to March 31st. The BAML HY Master II Index returned 8.84% over the same period, with the returns largely driven by commodity-related and low-quality issues. The Distressed benchmark returned 20.98% from February 12th to March 31st, and high-yield energy bonds, as measured by the BAML HY Energy Index, gained 26.59%. It's worth noting that the High Yield Energy Index is still down 21.62% since the end of 2014. The rally helped push the BAML HY Master II Index into the green by early March. The Index returned 3.25% in the first quarter of 2016.




Investment-grade bonds also benefited from the increase in oil prices and risk-on attitude of market participants. The Bank of America Merrill Lynch U.S. Corporate Index (the "U.S. Corporate") returned 3.92% in the first quarter of 2016. As was the case with high-yield bonds, investment-grade returns were significantly impacted by energy credits. In fact, energy bonds accounted for roughly two-thirds of the top 300 best performing investment grade corporate bonds in March, despite representing less than 12% of the U.S. Corporate Index. Many returned over 20% in the month, but the median return of the investment-grade index in the month was only 1.40%.

The Intrepid Income Fund (the "Fund") returned 1.42% in the quarter ended March 31, 2016. The Fund captured roughly 22% of the peak-to-trough decline of the BAML HY Master II Index through February 11th, falling 1.14% versus the Index's drop of 5.14%. The Fund benefited from relatively low exposure to energy-related credits. One of our few energy bonds actually produced a positive return in this period. Unfortunately, the Fund significantly underperformed the Index during the subsequent rally due to our conservative positioning, rising only 2.59% from February 12th to March 31st. While we participated more in the rally than we did in the decline, the Fund only captured 29% of the market's rebound during this period. Many of our largest positions are low-beta holdings, and therefore these bonds did not move significantly during the downturn or the rally. Further, a sizeable portion of the Fund is invested in short-duration investment-grade bonds and cash. Cash averaged roughly 26% of the Fund's assets in the first quarter.

The Fund's largest contributors in the first quarter ended March 31, 2016 were Regis Corp 5.50% due 12/02/2019, PHI Inc 5.25% due 3/15/2019, and Corus Entertainment common stock (ticker: CJR/B CN). The Fund also benefited from its exposure to precious metals mining and royalty/streaming businesses, which averaged about 6% of the Fund's assets in the quarter. Only two securities detracted from the Income Fund's performance in the first quarter: EZCORP 2.125% convertible bonds due 6/15/2019 and Unit Corp 6.625% due 5/15/2021. EZCORP is one of the Fund's serial offenders. The holding was a primary detractor in 2015 as well. While the situation has certainly been messier than we expected when we initiated the position, we continue to believe market participants are not properly valuing EZCORP's core pawn business. Even if a restructuring were required, we believe the convertible bonds would recover substantially more value than current trading levels suggest.

The Fund was fairly active in the first quarter. We initiated positions in three high-yield corporate bonds and increased our holdings in three more. Additionally, we sourced several short-duration investment-grade corporate bonds that we believe are offering attractive yields. The investment-grade holdings include the bonds of well-known businesses, such as Verizon Communications and Express Scripts.

The largest of the new high-yield positions is Caleres Inc 6.25% due 8/15/2023. The company was formerly known as Brown Shoe, and Intrepid has been a lender to the business on several occasions since 2008. Caleres is a global footwear retailer and wholesaler, operating over 1,000 stores in the United States under the banner *Family Footwear*. The company also owns a large stable of brands, which includes well-known brands such as Dr. Scholl's and Sam Edelman. While Caleres is exposed to consumer spending, we believe the business is conservatively financed and will be able to navigate a more difficult retail environment.

Only one of the Fund's holdings was called by the issuer in the first quarter: Crown Americas 6.250% due 2/01/2021. In light of the market's strength near the end of the quarter, we took the opportunity to rebalance some of the Fund's key holdings. We slightly reduced our positions in Alamos Gold, PHI Inc, and Pitney Bowes preferred stock. We ended the first quarter with roughly 21% of the Fund's assets in cash and 22% in short-term investment-grade bonds. In the absence of attractively-priced high-yield securities, we will utilize investment-grade bonds that carry little interest rate risk. The high-yield opportunity set still seems rather limited to us. Many bonds issued by more stable companies are trading near all-time lows. Furthermore, there are significant doubts as to whether the most heavily indebted issuers can service their debt loads. We will continue to be deliberate and thoughtful in selecting investments for your portfolio. Thank you for your investment.

Sincerely,

Jason Lazarus, CFA
Intrepid Income 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 (BAML HY Master II Index) tracks the performance of below investment grade, but not in default, US dollar-denominated corporate bonds publicly issued in the US domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P. 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. Bank of America Merrill Lynch U.S. Corporate Index (BAML 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. The BAML US HY Energy Index is a subset of the BAML HY Master II Index including all securities of Energy issuers. Bank of America Merrill Lynch U.S. Distressed High Yield Index is a subset of the BAML US High Yield Index including all securities with an option-adjusted spread greater than or equal to 1,000 basis points. You cannot invest directly in an index.

Free Cash Flow measures the cash generating capability of a company by subtracting capital expenditures from cash flow from operations. Yield is the income return on an investment. It refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value. Investment Grade is a bond with credit rating of BBB or higher by Standard & Poor's or Baa3 or higher by Moody's. Cash Flow measures the cash generating capability of a company by adding non-cash charges and interest to pretax income. Beta is a measure of volatility of systematic risk, of a security or a portfolio, in comparison to the market as a whole. Duration is an approximate measure of the price sensitivity of a fixed-income investment to a change in interest rates, expressed as a number of years.

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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