Intrepid Capital Funds
the constant pursuit of value

INTREPID INCOME FUND

2ND QUARTER 2016 COMMENTARY

2Q 2016

JUNE 30, 2016

PERFORMANCE

	Inception Date	Total Return Qtr.	YTD	1 Year	Average Annualized Total Returns as of June 30, 2016 3 Year	5 Year	Since Inception
Intrepid Income Fund - Inst.^	8/16/10	4.20%	5.68%	1.96%	1.90%	2.95%	3.82%
BAML HY Master II Index		5.88%	9.32%	1.71%	4.18%	5.71%	6.98%
Barclays US Aggregate Bond Index		2.21%	5.31%	6.00%	4.06%	3.76%	5.01%
BAML US Corporate Index		3.50%	7.56%	7.38%	5.41%	5.40%	6.08%

^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.

July 8, 2016

Dear Fellow Shareholders,

U.S. fixed income markets delivered impressive results in the second quarter ended June 30, 2016, adding to the gains realized in the first quarter. The six-month period is the highest performing in years for most fixed income asset classes. The strength was broad-based: significant gains were experienced in everything from risk-free securities (government bonds) to the riskiest high-yield bonds. This is unique to the central bank-manipulation era. Investors typically flee risky high-yield bonds in favor of the safety of government bonds during times of stress, and seek out higher returns in lower credit quality when the economic outlook is favorable, resulting in higher government bond yields. Not so when central banks have pegged short-term rates to zero (or lower) and have committed to do whatever it takes to support asset prices.

The U.K.'s unexpected vote in favor of leaving the European Union initially resulted in significant panic in risky assets. Various equity indexes declined several percent in short order. Not to worry—central bankers to the rescue! The subsequent mass flight to the "safety" of government bonds has resulted in more than $10 trillion in global sovereign debt trading at negative yields. This sum represents one-third of all government debt worldwide. A trillion is difficult to conceptualize, so consider the following to put the ridiculousness in context.

- The Swiss government does not have a single bond outstanding that offers a positive return. Purchasing the Swiss 2% issue maturing in 2064 today will result in an annualized loss of about 0.05% if held to maturity.
- In Denmark, homebuyers have been able to secure mortgages with negative rates. This means the bank pays the borrower interest to take out a mortgage.

- Consumer goods manufacturer Unilever issued four-year Euro-denominated bonds in April to yield 0.081%. Investors paid Unilever €996.77 to receive €1,000 in four years. The bonds do not pay a coupon. Yes, you did the math properly – that's a €3.23 total return.

- Spain's 10-year borrowing rate is just over 1%, a yield typically associated with risk-free securities. In contrast, the country's unemployment rate has been above 20% for the last five years. More than 45% of those under 25 years old are jobless.

Top Ten Holdings	(% OF NET ASSETS)
EZCORP, 06/15/2019, 2.125%	5.2%
Regis, 12/02/2019, 5.500%	5.2%
Pitney Bowes Intl Pfd Stock, 6.125%	4.1%
Multi-Color, 12/01/2022, 6.125%	4.0%
Alamos Gold, 04/01/2020, 7.750%	3.7%
Tech Data, 09/21/2017, 3.750%	3.6%
Cash America Intl, 05/15/2018, 5.750%	3.5%
First Cash Financial Svc, 04/01/2021, 6.750%	3.3%
PHI, 03/15/2019, 5.250%	3.0%
Starz LLC / Starz Finance, 09/15/2019, 5.000%	3.0%

Top ten holdings are as of June 30, 2016. Fund holdings are subject to change and are notrecommendations to buy or sell any security.

In the U.S., the odds of near-term interest rate hikes collapsed and longer-term government bond yields dropped to record lows. The yield on the U.S. ten-year has fallen from over 2.2% at the beginning of 2016 to less than 1.4%, resulting in gains of over 8% for U.S. Treasury bonds maturing in late 2025. Investors in search of yield have continued to assume more and more credit and interest rate risk in lower credit quality and longer duration bonds. The Barclays US Aggregate, which broadly represents the U.S. investment grade bond market, returned 2.21% in the second quarter. Moving up the risk spectrum, the BAML US Corporate Index, which consists of investment-grade corporate bonds, returned 3.50%. Most of this return was driven by lower risk-free rates, rather than tighter credit spreads. On the other hand, high-yield credit spreads tightened significantly. This resulted in the BAML US High Yield Master II Index (the "Index") returning a whopping 5.88%, significantly outperforming the major equity indexes.

The Intrepid Income Fund (the "Fund") performed well despite our defensive posture and very short duration, gaining 4.20% in the second quarter. Short-term investment-grade bonds averaged 22% of the portfolio in the quarter, and cash also averaged 22%. The Fund's duration at the beginning of the quarter was only 1.8 years, and at the end of the quarter was 2.1 years. We strive to limit interest rate risk and focus on credit risk, particularly in the current environment. The Fund's duration was significantly lower than the investment grade corporate and high-yield indexes at the beginning of the quarter, which had durations of 7.0 years and 4.3 years, respectively.

The largest positive contributor to the Fund's performance in the second quarter was EZCORP 2.125% convertible notes due 6/15/2019. Regular readers of our commentary will no doubt recognize EZCORP from past letters, but for a different reason. In 2015 and the first quarter of 2016, the bonds were among the Fund's worst performing securities. In our first quarter letter we noted, "we continue to believe market participants are not properly valuing EZCORP's core pawn business." At the time, the bonds were trading around 65 cents on the dollar, which equated to more than an 18% yield-to-maturity. EZCORP's bonds were (and still are) one of our highest conviction ideas, and thus constituted one of our largest positions at near 4% of the Fund's assets. It appears investors may have begun to see through the firm's complexities. The bonds rose more than 30% and were the Fund's second highest-returning security of the quarter. Our large position made EZCORP the Fund's largest contributor by a significant margin. In May, EZCORP announced it was pursuing the sale of its problematic Mexican loan subsidiary. The firm also reported solid results in its core pawn business in the U.S. and Mexico. Subsequent to quarter end, EZCORP announced the sale of the Mexican unsecured loan business on favorable terms. While the yield offered by the bonds has declined as the price has risen, we continue to believe the security offers an attractive potential return for a bond maturing in less than three years.

The Fund's second largest contributor in the quarter was Unit Corp 6.625% due 5/15/2021. The energy producer's bonds lagged many high-yield E&P earlier in the year and made up significant ground in the second quarter. Rounding out the top three was our combined position in two Rent-A-Center bonds. There were no material detractors in the quarter.

Purchase activity was limited in the quarter. We added to existing holdings and established two new positions. One of the new positions is a short-term investment grade corporate. The second is the notes of Starz LLC. The bonds pay a 5% coupon and mature in 2019. Starz was sourced by our small cap equity team. Unfortunately for bondholders, it was announced last month that Starz will be sold to Lionsgate, and therefore we expect the notes to be taken out early.

We were actively selling some holdings as the high-yield market roared higher. We exited two opportunistic positions that were established just a few months ago for sizeable gains. These include Bristow Group 6.250% due 10/15/2022 and Royal Gold 2.875% convertible notes. We established the Bristow position in February when the high-yield market was in turmoil. The Royal Gold notes were purchased in November 2015 as gold prices hit multi-year lows. We reduced our position in two longer-term holdings, and cut our holdings of Baldwin & Lyons common stock as it approached our estimate of intrinsic value. Lastly, our Hanesbrands notes and our Verizon Communications notes were repurchased by the issuers.

As we have stated time and time again, we will not purchase a security unless we believe we are being well compensated to assume the risks. Unfortunately, the current environment is offering very few investments that meet our criteria. Investors have flooded into higher-yielding bonds with no regard for fundamental credit quality, bidding ever higher for bonds of companies that would have restructured long ago if it weren't for central bank shenanigans. Some market prognosticators will point to the index's yield of nearly 7% in support of the relative cheapness of high-yield bonds. However, looking under the hood reveals much less attractive opportunities. A few bonds of larger companies are weighted more heavily in the index, which skews the yield higher. The median yield-to-worst is just 6.2%, and excluding energy bonds is 5.9%. The yield-to-worst of higher quality BB-rated bonds (BAML BB US High Yield Index) is less than 5%, and investment grade corporates (BAML US Corporate Index) offer only 2.8% with a maturity of over 10 years. I would be remiss not to mention that these yields include no haircut for potential bond defaults. This is not to say it is impossible to find good opportunities. We've experienced success in several recent ideas, including Bristow Group and Royal Gold discussed above. However, opportunities such as these have been difficult to come by, now even more so. We will continue to search diligently on your behalf.

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 Bank of America Merrill Lynch BB US High Yield Index (BAML BB US High Yield Index) is a subset of the BAML HY Master II Index including all securities rated BB1 through BB3, inclusive. You cannot invest directly in an index.

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. 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. Yield-to-Maturity is the total return anticipated on a bond if the bond is held until the end of its lifetime. E&P (Exploration and Production) is a type of company in the oil and gas industry focused on discovering and extracting crude oil and natural gas from underground reserves. Yield-to-Worst is the lowest yield an investor can expect when investing in a callable bond.

As of 6/30/2016, €€1 = $1.110

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