Intrepid Capital
MANAGEMENT INC.

2Q 2016

Index Returns	
4/1/2016 to 6/30/2016	
Dow Jones:	2.06%
S&P 500:	2.46%
NASDAQ:	-0.23%
Russell 2000:	3.79%
MSCI EAFE:	-1.46%

QUARTERLY COMMENTARY

July 2016

"Keep your eye on the ball and hit 'em where they ain't."

— Willie Keeler, MLB player (1892-1910)
& Hall of Fame inductee

Dear Friends and Clients,

We are pleased to announce that the Intrepid Balanced Portfolio (the "Portfolio") increased 5.69%, net-of-fees, for the quarter ended June 30, 2016, comparing favorably against the various all-equity indices. For the same period, the Russell 2000 Index, which consists of smaller capitalization domestic stocks, and the S&P 500 Index, a capitalization-weighted index of larger U.S. companies, returned 3.79% and 2.46%, respectively. The BAML High Yield Master II Index, which consists of high yield bonds, returned 5.88% for the same period.

As we have mentioned many times, "bankers get to eat first!" By that we mean that a bond represents a superior claim on the cash flows of a business or government entity (e.g. Puerto Rico). Equity shareholders accept a junior position in the food chain in exchange for potentially higher returns, but occasionally there are cases, such as our current investment in the notes of EZCORP, where a position higher in the capital structure offers potential returns equal to or greater than those of an equity stake. This happened to be the case for bondholders in aggregate through the first half of the year, as bonds have had better absolute and risk-adjusted results than most equity shareholders. The Barclays US Aggregate Bond Index, a measure of investment grade bonds, is up 5.31%, year-to-date, and high yield bonds as measured by the BAML High Yield Master II Index have done even better at 9.32%. By contrast, equity indices like the S&P 500 and Russell 2000 have only seen 2-4% increases, meaning incremental risk-taking by investors in equities was largely unrewarded as central bankers continued their various methods of interest rate suppression.

While our central bankers (Federal Reserve) haven't tried out negative interest rates on U.S. depositors yet, as Japan and various European central banks have, we do have two presidential candidates with nothing more than retread policies. One is advocating for more of the same economic agenda that has resulted in negative inflation-adjusted wage growth for the average household over the last eight years, coupled with a record low labor force participation rate. The other wants a wall separating the U.S. from one major trading partner (and paid for by that partner!) and tariffs imposed on another. Pick none of the above.

We need better policy. In fact, we should demand better policy as we are the ones paying for it and the politicians are, at least in theory, the ones working for us. Our country has plentiful resources and hard-working people, coupled with deep and highly developed capital markets. It's debatable how quickly our economy needs to grow if we are to pay our debt and the entitlements both parties have promised (Social Security, Medicare, Medicaid, etc.), but the magic number is much higher than the anemic 1.76% annual real GDP growth we've experienced since 2009. Taxes can be raised, but at some point high taxes start to discourage economic production and drive rational taxpayers to take drastic actions, like the case of Facebook co-founder Eduardo Saverin, who renounced his citizenship and moved from California to Singapore prior to Facebook's successful IPO to reduce his capital gains taxes. Next time you see a politician, and certainly before writing him or her a check, ask "What are you going to do to make our economy grow faster?"

We have endured the first half of the year, despite all the gyrations, starting with a drawdown into early February due to the plunging price of oil, and more recently with the surprising outcome of the U.K. deciding to leave the European Union, aka Brexit. We feel good about where the Portfolio's performance is year-to-date with an increase of 8.27%, net-of-fees. This has confirmed to us once again, that if you don't want the results everyone else is getting, you'd better try something else.

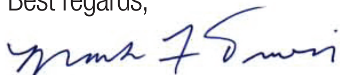
The world has shifted in a significant way toward "passive" investing, where portfolios are constructed to mimic an index that serves as a proxy for the whole market. This strategy has blossomed in the low volatility world in which equity investors have found themselves for the last seven years, courtesy of central bank rate suppression policies. I think many investors are making a rational choice in indexing, if the alternative is an "actively managed" portfolio that largely apes an index but charges 100 basis points more for the privilege. However, many investors who converted to passive strategies simply because they saw the market going up and didn't want to miss out may be rethinking their decision as the previously soaring equity markets have largely stalled since the end of Quantative Easing (QE) in October 2014. From October 31, 2014 to June 30, 2016, the S&P 500 (large caps) and Russell 2000 (small caps) have had annualized returns of only 4.62% and 0.34%, respectively, and have seen temporary drawdowns of 12-20%. Our intent is not to bash passive investing as a concept, but to note that indexing tends to be very popular on the way up and equally as unpopular on the way down. Before switching to an index-based portfolio, we believe every investor needs to understand that the post-recession market returns to date are not normal historically and consider their intestinal fortitude ahead of the inevitable next downturn.

At Intrepid Capital, we have chosen an entirely different path – one that rests on the backs of our eight-person analyst team. The benchmark indices for each of our portfolios are not a reference point for us during portfolio construction, and each security is carefully underwritten as to business valuation for equity and assets or free cash flows for debt. We seek to thrive on periods of market turmoil, as volatility dislodges opportunities to put our cash reserves to work and scoop up businesses at bargain prices.

We continue to seek businesses that can be valued with a high degree of confidence and those we believe to be selling at a discount to our fair value estimate. Our goal is to provide attractive absolute risk-adjusted returns, which we believe we have done so far in 2016. The Portfolio ended the quarter with a healthy (by industry standards) cash balance of 20.9%, available to deploy should volatility continue to increase in the back half of the year. The Portfolio's three largest contributors during the quarter were EZCORP (CUSIP 302301AB2), American Science & Engineering (ticker: ASEI), and Dundee Corp. (ticker: DC/A CN). The Portfolio's three largest detractors for the quarter were Hornbach Baumarkt AG (ticker: HBM GR), Teradata Corp. (ticker: TDC), and Oaktree Capital (ticker: OAK).

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 better serve you, please don't hesitate to contact us.

Best regards,

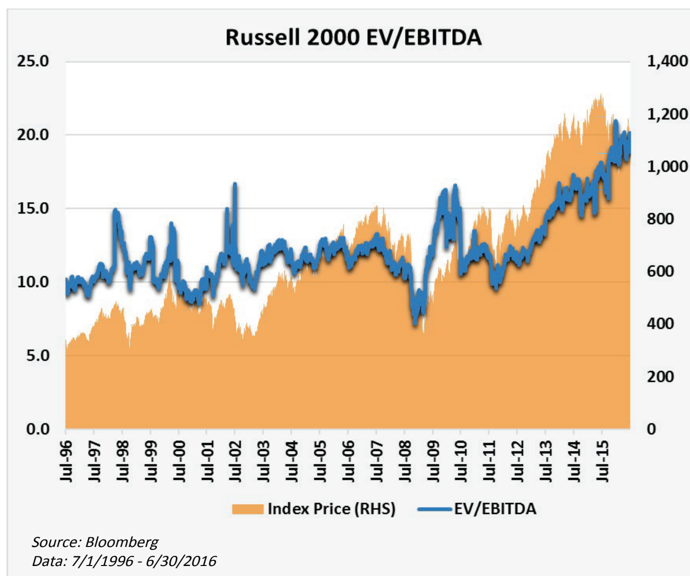


Mark F. Travis

President/CEO

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

We wish we had something new and exciting to report about the state of the capital markets. Small cap stocks are still as expensive as we've ever seen. The EV/EBITDA multiple on the Russell 2000 Index is 20x, while it was closer to 12x at the prior two market peaks (March 2000 and July 2007). We believe that fully committed portfolios have considerable downside risk. We sound like a broken record. We know.



For the quarter ending June 30, 2016, the Intrepid Small Cap Portfolio (the "Portfolio") increased 4.47%, net-of-fees, compared to a 3.79% gain for the Russell 2000 Index. Year-to-date, the Portfolio is up 6.87%, net-of-fees, versus 2.22% for the Index. Our investment discipline indicates that cheap securities are few and far between, which has resulted in cash growing to 72% of assets in the Intrepid Small Cap Portfolio. The securities we own have performed extremely well compared to our benchmark this year. In some cases, this represents a recovery from last year's weaker performance, when the market punished our precious metals, commodity, and Canadian investments.

We still have a lot of catching up to do before the Portfolio's relative returns approach those of its benchmark over the past five years, although our performance over the full cycle remains good. Our view is that a significant portion of stock gains experienced over the last several years are undeserved, since they were not supported by economic fundamentals but instead are the byproduct of central bank intervention and a complicit investment industry that has been all too eager to ride the wave of false prosperity.

The Portfolio had no securities that detracted from performance by more than 10 basis points in the second quarter, which is our threshold for discussion. The three largest positive contributors to the Portfolio's Q2 performance were EZCORP (CUSIP 302301AB2), Silver Wheaton (ticker: SLW), and Corus Entertainment (ticker: CJR/B CN). The yield on EZCORP's convertible notes tightened to 9% after widening to 18% last quarter. The company's pawn business showed accelerating improvement, as increases in pawn lending more than offset reduced jewelry scrapping. EZCORP is actively marketing for sale its troubled Mexican payroll withholding business and will soon place that subsidiary into discontinued operations. We believe this will streamline financial results and help investors gain comfort with the firm's core pawn operations.

Silver Wheaton, along with our other holding Sandstorm Gold (ticker: SAND), participated in the powerful rally in precious metals stocks this year. Gold and silver are up 25% and 35%, respectively, year-to-date, as investors seem to be embracing precious metals as protection against ongoing currency debasement. When streaming companies like Silver Wheaton and miners next report financial results, it will be the first time in several years that earnings are assisted by higher metals prices. Although Silver Wheaton and Sandstorm have become more fully valued in relation to gold and silver prices, we feel that some continued metals exposure is warranted in light of historic desperation from central banks.

Corus Entertainment staged a partial rebound from multiyear lows. While reported results appeared good, they were propped up by a couple of one-time items. We haven't yet seen improvement in television advertising revenue, but soft advertising was mostly offset by strength in affiliate fees and merchandising and distribution revenue. We expect advertising to begin to recover in the coming quarters as Corus benefits from its integration with Shaw Media. Half of all women watching a cable channel in Canada are now watching a Corus-owned network, which places the company in a strong competitive position with advertisers. We

have trimmed the Portfolio's position in Corus as the valuation discount has closed, but it remains a top holding for us, trading at approximately 8.5x estimated free cash flow.

We did not purchase any new positions in the past three months. During the second quarter, the Portfolio sold two holdings: Unit Corp. (ticker: UNT) and Starz (ticker: STRZA). Unit did not work out for us. We originally purchased the stock early on in the oil rout. We believed Unit's superior balance sheet would enable it to survive long enough for commodity prices to recover, leading to an attractive return. However, two things happened that reduced the likelihood of a favorable outcome for Unit. First, the commodity recovery has taken longer than we anticipated, which has led to ongoing erosion in the balance sheets of E&P operators. Secondly, while many other E&Ps took advantage of favorable capital markets to raise equity during the first half of 2015—a time when we sold some of our better performing energy names—Unit did not issue stock. This move made sense if oil and natural gas prices recovered swiftly, but because they did not, Unit's reluctance to fortify its balance sheet diminished its superiority on this front. We lack conviction that oil and gas prices will rise quickly enough to levels that put Unit back into a position where it is not depleting value. As a result, we exited our position during a rebound in E&Ps this quarter.

We sold Starz in the past week after several media outlets reported that the company was in discussions to be acquired by Lionsgate, which proved to be true. Interestingly, we bought Starz in February below 8x EBIT after the stock plummeted on investor concerns that a deal with Lionsgate was less likely. We sold it on the rumor that a deal was in the works, as the stock reached our valuation. Starz is a good example of how Intrepid can take advantage of vacillating investor sentiment. Another Portfolio holding that benefited from M&A this quarter was American Science & Engineering (ticker: ASEI). In last quarter's letter, we opined that *"shareholder value would be maximized if ASEI were part of a larger defense technology firm."* On June 20, 2016, ASEI announced that it would be acquired by OSI Systems. We were disappointed by the modest premium paid and believe OSI is getting the better end of this transaction. Nevertheless, ASEI has been a profitable, albeit small, investment for the Portfolio, as we added to the position after last quarter's post-earnings collapse.

The Intrepid Small Cap Portfolio has delivered strong full-cycle investment returns over its history by being different than most other investors. With us, you are getting an active manager who is unafraid to separate from the pack when conditions warrant. Today, most reasonable investors would agree that valuation multiples for small caps are near the highest levels in at least a generation. Many investors would also acknowledge that economic growth has not been strong and that there are numerous reasons to be cautious about the future, starting with the gargantuan global pile of debt. Central bankers have worked swiftly to counter any periodic bouts of fear in the capital markets with promises of ongoing support and stimulus.

Over the past three trading days, stocks have erased their post-Brexit losses on promises and winks from central bankers that interest rates will only be falling further. Rapacious Brexit fearmongering has magically transformed into a scenario of higher stock prices, and right in time for the end of the quarter! It's a tragicomedy that has played on continuously since the credit crisis, as anything perceived as bad is deemed to be ultimately good for the stock market. Where we break away from the herd is in our doubt that this epic charade can continue.

Thank you for your investment.

DISCIPLINED VALUE PORTFOLIO – COMMENTARY BY GREG ESTES, CFA, PORTFOLIO MANAGER

The UK has voted to "Brexit" the European Union, and while this development has rightfully dominated the attention of the financial news industry, we think there are issues of far greater consequence for domestic investors. The primary issue is the decline in first quarter earnings among S&P 500 companies, which reported from April through June. That makes four quarters in a row that earnings have declined, and expectations are that the next quarter will also be a decline, a streak that would tie the Great Recession of 2007 to 2009. Part of the reason for declining earnings is contracting profit margins, which peaked in December 2014 slightly above 10% and have slowly contracted to 9.6% currently.[1]

Generally speaking, when earnings decline, investors head for the exits. However, in today's world of extremely low rates, there is no safety to be found. At least, we believe, there is no safety to be found that will pay an investor much of a return. That explains why the S&P 500 has actually moved up despite the earnings drop. The S&P 500 is up 3.84% for the last six months. The reason is that investors expect earnings to show growth in the back half of 2016. In fact, analysts expect second half earnings to grow 4.2% for S&P 500 companies.[2] Hope springs eternal. In college football rivalries, fans of the losing team will usually say, "Wait till next year!" For Street analysts, the mantra is slightly changed to "Wait till the back half of the year!" The basis for this optimism appears to rest on easier comparable periods, since the results for the September and December ending quarters have easier prior year periods against which to compare themselves. We are less optimistic. We think that analysts tend to overestimate earnings growth at this time of year. In each of the last five years (2011-2015), analysts have overestimated actual second half earnings growth by 4.7% on average, which is higher than the growth they expect to see in the back half of the year.[3] Our view is colored by what we see and hear from the management of companies we follow, and they characterize the current environment as challenging, especially for growing revenue. We also see many businesses trading at multiples that we deem historically expensive. Thus, we are cautiously positioned and hope to take advantage of ongoing market volatility and any potential pricing dislocations that might occur.

For the quarter, the Intrepid Disciplined Value Portfolio ("the Portfolio") returned 3.83%, net-of-fees, compared to the S&P 500 Index return of 2.46% and the Russell 3000 Index's 2.63%. For the first six months of the year, the Portfolio returned 8.09%, net-of-fees, compared to 3.84% for the S&P 500 Index and 3.62% for the Russell 3000 Index. The outperformance in both periods can be primarily attributed to our precious metals holdings. For the second quarter, our top two performers were Alamos Gold (ticker: AGI) and Silver Wheaton (ticker: SLW). Corus Entertainment (ticker: CJR/B CN) just nudged out Symantec (ticker: SYMC) to take the third spot among the Portfolio's top contributors. In the case of Corus, we believe that the market favorably viewed its acquisition of Shaw Media and the ability of the combined firm to grow its advertising revenues. We also want to mention Symantec, which we sold near the end of the quarter. We held this stock for less than a year. However, most of our gain in this investment came from dividends, since the company paid out a $4 special dividend back in March to distribute proceeds from the sale of its Veritas unit. During the second quarter, Symantec announced that it was buying Blue Coat Systems for a whopping $4.65 billion, which was more than 24 times Blue Coat's EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization). The market liked the deal, in which Symantec gets a firm in the hot-growing Policy Enforcement part of cloud and web security as well as a CEO in Greg Clark. As the stock traded beyond our intrinsic value, we exited the position.

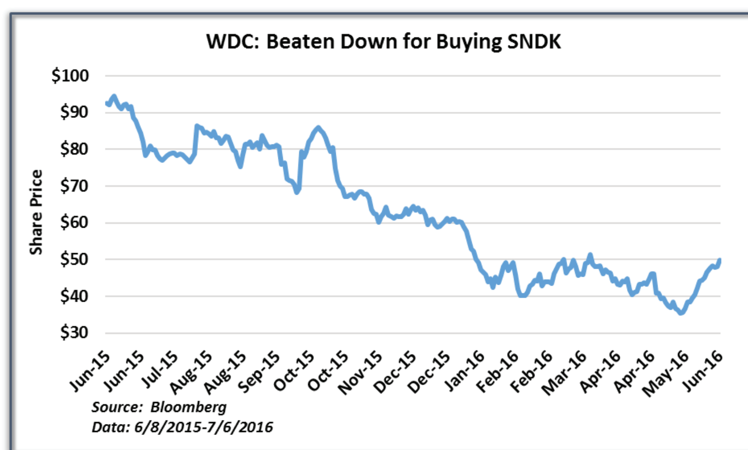
On the opposite side of the ledger, our bottom contributors included two that were impacted by the Brexit vote, though in different ways. First, Oaktree Capital (ticker: OAK) was impacted, although not necessarily because of particular investments in the UK. Rather, the financial industry as a whole declined after the vote result. We do not believe that Oaktree is hurt by Brexit, and in fact, believe it is more likely to benefit from potential mispricing that may occur. Quarto Group (ticker: QRT LN) declined because it is a UK-based company. However, more than half of its revenue comes from the U.S. Rounding out the bottom three is Apple (ticker: AAPL), which started to decline earlier in the year as results in China were disappointing. We expect a new product to become available in the fall, but at this time we are maintaining what we feel is a cautious position in this stock until we can get a

1 Jones, Chuck. "June Quarter to Tie the Great Recession's Earnings Decline." Web Blog. *Forbes.com.* 20 June 2016.
2 Kingsbury, Kevin. "How Much Longer Will S&P 500 Profit Contract?" Web Blog: *WSJ.com/Moneybeat.* 28 June 2016.
3 Butter, John. "Earnings Growth - Can S&P 500 Break Streak Of EPS Declines?" *Factset.com.* 28 June 2016.

bit more clarity on the product and the potential for domestic customers to upgrade. Recall that two years ago, Apple was able to set record sales on the strength of its iPhone 6 and 6 Plus as many U.S. iPhone users upgraded to the newer model. However, last year the iPhone 6S and 6S Plus were less successful. One thing to keep in mind is that wireless service providers (such as Verizon and AT&T) have switched to installment type plans, in which users pay down the cost of their phones on a monthly basis. There is a potential for this plan to incent users to upgrade their phones on a more regular basis. In addition, back in January, Apple CEO Tim Cook noted that about 60% of those who had an iPhone prior to the launch of the iPhone 6 and 6 Plus *had still not yet upgraded their phones.* We think the bottom line is that Apple has an opportunity here, and the installment plan will increase the likelihood that users will upgrade. Stay tuned.

Although activity was muted in the quarter, we did add one position in Western Digital (ticker: WDC), a leader in disk storage solutions for computing devices and servers. Our initial position was established when the company bought SanDisk (ticker: SNDK). On October 21, 2015, Western Digital announced an offer to acquire SanDisk for $85.10 cash and 0.0176 shares of WDC for each share of SNDK. However, this offer was contingent upon an equity investment from Tsinghua Unisplendour, a business unit of the Chinese Tsinghua University. The 15% equity stake would have given WDC an additional $3.775 billion, which translated into a price of $92.50 per share of WDC. A contingent offer was also made, which would take effect if the Tsinghua financing fell through. That second offer was $67.50 in cash and 0.2387 shares of WDC for each share of SNDK. Concerns expressed over the financing from Tsinghua were legitimate, because the CFIUS (Committee on Foreign Investment in the U.S.) had to approve the Chinese investment. The CFIUS is led by the Treasury Department and includes the Defense and State departments. It conducts reviews of acquisitions of U.S. businesses by foreign investors and it recommends that the President block any transaction that it deems could compromise national security. The primary concern in this case was WDC's potential acquisition of SNDK. China currently does not have direct access to the manufacturing techniques to make cutting edge flash chips. Approval from the CFIUS would have meant a higher cash offer for SNDK owners.

From the perspective of WDC owners, things were much different. The initial buyout offer amounted to about $19 billion for SanDisk, or about 14 times trailing EBITDA. As you can see from the stock chart below, investors reacted rather negatively. As the stock price declined, not only did the Tsinghua agreement receive scrutiny from regulators, it also began to make less sense that an outside investor would pay $92.50 per share to take a 15% equity stake in WDC with the market price for shares near $60 by year end. Western Digital continued ahead, re-filing its request for CFIUS review on January 26th with a share price now at $45. The CFIUS never got to issue any review, since Tsinghua terminated its plan on February 23, 2016, which was also about when the entire U.S. market bottomed out.



The deal closed at the $67.50 cash/0.2387 share offer on May 13, 2016. Western Digital is now in both the Hard Disk Drive (HDD) business and the Solid State Drive (SSD) business with SanDisk. HDDs tend to be found in desktops and servers. They have spinning disks and can hold of lot of information. SSDs tend to be smaller, have no moving parts, and can access data more quickly than HDDs. While the Hard Disk Drive is a very mature market, the Solid State Disk is considered the future of data storage. Now, Western Digital has both. In addition, SanDisk has a joint venture in which it manufactures its own flash chips, which are the components needed to construct SSDs. This makes SanDisk a vertically integrated SSD manufacturer. What we like about owning WDC is that it has a lot of room to reduce costs, not only by integrating SanDisk, but also because it has received permission from China's Ministry of Commerce to integrate another subsidiary, Hitachi Global Storage Technologies

(HGST). Previously, the Chinese government had mandated that WDC run Hitachi Global as an entirely independent subsidiary. Now, it can integrate it more fully, from management to manufacturing. Only the sales group must be separate. With the integration of Hitachi Global and SanDisk, Western Digital has an opportunity to drive out redundant costs. In addition, Western Digital has very strong relationships with Original Equipment Manufacturers (OEMs), which buy its Hard Disk Drives. We believe that it can leverage those relationships to sell more of SanDisk's Solid State Drives into the OEM channel. We believe that we have acquired shares of Western Digital at an attractive discount to intrinsic valuation.

The Portfolio ended the quarter with 50.1% in cash. We continue to be opportunistic in our approach to adding to existing positions. The average discount to intrinsic value within the Portfolio was 18%. This is derived by simply looking at each position within the portfolio, comparing its quarter-end price to our intrinsic valuation, and then finding the average of those 25 positions. We thank you for investing alongside us.

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

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.

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 Portfolio (the "Portfolio") performed well despite our defensive posture and very short duration, gaining 4.23%, net-of-fees, in the second quarter. We strive to limit interest rate risk and focus on credit risk, particularly in the current environment. The Portfolio'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 Portfolio'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 Portfolio'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 Portfolio's assets. It appears investors may have begun to see through the firm's complexities. The bonds rose more than 30% and were the Portfolio's second highest-returning security of the quarter. Our large position made EZCORP the Portfolio'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.

Rent-A-Center 4.75% due 5/01/2021 and Alamos Gold 7.75% due 4/1/2020 were our second and third largest contributors, although they were well behind EZCORP. There were no material detractors in the quarter.

We purchased several securities in the quarter, three of which are issued by companies we have been following for many years. The only "new" bond purchased is that 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 Bristow Group 6.25% due 10/15/2022 for a sizeable gain. This position was established just a few months ago when the high-yield market was in turmoil.

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 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.

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

"London Bridge is falling down,
Falling down, falling down.
London Bridge is falling down,
My fair lady."

— English Nursery Rhyme

Prior to the Brexit vote on whether the United Kingdom should abandon the European Union, the media, politicians, and economists all preached of pending doom if the UK left the EU. The *Financial Times* reported that the UK Treasury's main scenario is that GDP will be 3.6% lower after two years than if the UK voted to stay, and under a worse scenario they forecast GDP would be 6% lower.[4] The International Monetary Fund (IMF) stated that a leave vote would, at a minimum, lead to 1.4% lower GDP by 2021, and result in a "negative and substantial" hit to the economy, as well as lead to "permanently lower incomes." Finland's finance minister Alexander Stubb had even harsher words: "It's absolutely clear that there would be economic mayhem if the UK were to vote out."[5] Based on the $3 trillion in market value wiped out in the two days of trading following the UK vote to leave the EU, many market participants appeared to initially agree on the level of devastation. **We, however, disagree with the forecasts.** It is not that we disagree with the results of the forecasts, we simply disagree with forecasting in general. Instead, we agree with Harvard economist John Kenneth Galbraith when he said: "There are two kinds of forecasters: those who don't know, and those who don't know they don't know." Rolf Dobelli, in *The Art of Thinking Clearly,* helps differentiate what we know we don't know by separating risk from uncertainty: "Risk means that probabilities are known. Uncertainty means that probabilities are unknown…The economy resides in the realm of uncertainty." Understanding the difference between these two options (risk and uncertainty) may be clear; however, learning how to deal with ambiguity is something humans are not well programmed to accept. Human psychology drives our desire to predict outcomes, which often leads to trusting those that we deem knowledgeable. Well, we're sorry to inform you that we will not claim to know the full impact of Brexit, although we strongly doubt the London Bridge is falling down.

With our forecast of the impact of Brexit out of the way, we will state that we do not believe isolationism is the path to prosperity. However, anti-free trade policies and rhetoric coming from the mouths of politicians both foreign and domestic continue to gain steam. David Ricardo's work on comparative advantages almost 200 years ago was brilliant, and this idea has been bearing fruit with growth across the globe over the past 60 years as free trade has taken hold. Today, we are seeing some of the challenges of global free trade and while it's easy to throw stones at the costs of globalization, it's at least equally important to recognize the benefits.

For the quarter, the Intrepid International Portfolio (the "Portfolio") returned 5.09%, net-of-fees, and the MSCI EAFE Index (the "Index") returned -1.46%. Year-to-date, the Portfolio is up 9.06%, net-of-fees, compared to a 4.42% loss for the Index. Fears of Brexit caused turbulence prior to the June 24th vote, although most polls, bets, and talking heads felt there was a low probability of the UK's eventual vote to leave the EU. The Index declined nearly 10% the following two days (-9.84%), while the Portfolio fell by about one-third of the Index's decline (-3.53%). In full disclosure, a minority of this two-day outperformance was due to currency, as the Portfolio was almost fully hedged while foreign currencies depreciated. We were pleased that our securities held up in this volatile period, but it also gave us little to add to. Additionally, many of the securities on our watch list also held up relatively well. We were, however, able to make a few small purchases.

Performance for the quarter was driven by our top three contributors: GUD Holdings (ticker: GUD AU), EZCORP convertible notes (CUSIP 302301AB2), and HNZ Group (ticker: HNZ CN). Pacific Brands (PBG AU) receives an honorable mention for getting bought out by underwear giant Hanesbrands (ticker: HBI). The top three detractors during the quarter were Stallergenes Greer (ticker: STAGR FP), Hornbach Baumarkt (ticker: HBM GR), and Clere AG (ticker: CAG GR).

4 Wolf, Martin. "Brexit imperils the confidence of strangers." *ft.com.* 14 June 2016.

5 Cadman, Emily and FT reporters. "IMF says Brexit will permanently lower UK incomes." *ft.com.* 18 June 2016.

GUD Holdings is an Australian holding company and was listed as a top detractor last quarter. Quoting the first quarter's commentary helps understand the outperformance this period: "GUD Holdings reported weak results and reduced guidance in late January, causing the stock to fall. The weakness was in segments we consider non-core, while their strong Automotive segment performed well. We took the opportunity to add to the position." The segment we considered non-core was sold during the period, resulting in a more streamlined business that we consider to be higher quality. The market seemed to agree with a double-digit return during the period.

EZCORP is a domestic pawn shop owner and operator. While EZCORP does have exposure to Mexico, it is accurately considered one of our two domestic holdings. This is a firm-wide high conviction idea that was sourced by our small cap equity team. This holding highlights two important distinctions for the Portfolio: (1) we will purchase a domestic security if it appears especially attractive, and (2) while we are searching for equity-like returns, we do not limit ourselves to equity securities. By the end of the first quarter, the EZCORP notes were yielding 18%, definitely above our threshold for "equity like returns." We believe the value of the bonds is easily covered by the company's high-quality pawn shops.

HNZ is a helicopter operator with operations primarily in Canada and New Zealand. Like much of the industry, HNZ had exposure to the oil/gas and mining sectors which weighed on the stock as these customers cut back on capital projects requiring helicopter transit. We were drawn to the business due to the company's excellent balance sheet, experienced leadership team, and an onshore division which continues to generate earnings even when offshore oil/gas projects are cut. We were originally cautious with our weight in the portfolio due to the exposure to cyclical end industries, but we increased our position as the stock price fell well below the net asset value of the business and was trading at a low multiple of our estimate of normalized earnings. The company's next quarterly earnings report exceeded expectations due to significant cost reductions, which helped the stock price rebound.

Pacific Brands has been discussed in historical commentaries. The Australian business focuses primarily on making underwear, which is the type of business we like to own: simple, boring, and easy to understand. We had historical experience with underwear businesses from researching Hanesbrands several years ago when we owned the bonds in the Intrepid Income Portfolio. Our knowledge of the two companies resulted in us referring to Pacific Brands as the "Hanesbrands of Australia." Hanesbrands agreed, and purchased the company for AUD 1.15 per share, far above our initial purchase price a little over one year ago in the low AUD 0.30s.[6] Typically, when we experience a buyout of one of our securities, we will sell even if the price is below the buyout price. We are not a merger arbitrage firm and do not attempt to pick up these small, high probability returns that have a low probability of a large negative return. However, we held on to this security until the deal was done in an attempt to minimize the tax burden for our investors. Some of our purchases occurred slightly more than a year from the scheme implementation date, and holding out for the cash payment from Hanesbrands causes these purchases to be considered a long-term gain, thus saving on taxes for a taxable investor. We also believed that the deal had a very high likelihood of going through due to the strength of Hanesbrands, which we felt resulted in less risk than a typical deal.

The top detractor during the quarter was Stallergenes Greer. The company is a top global producer of allergen immunotherapy solutions, including allergy shots and tablets. They are going through a rough patch, as they recently issued a voluntary recall at their primary manufacturing plant in France. No one was harmed and the plant is back up and running, but the near-term financial losses were large.

Hornbach Baumarkt is a DIY retailer in Germany that is spending heavily on logistics and IT in anticipation of a much larger part of their business being derived from online sales. While revenue has been increasing at an attractive level, the costs of building out a significantly larger distribution network are weighing on the bottom line. As online revenue reaches critical mass, we expect positive leverage out of the expenditures.

Clere AG is the new name for a much discussed security, Balda. The security is trading at a substantial discount to the net cash on the balance sheet. The security's negative return during the period was not significant; however, the weight in the

6 As of 6/30/2016, AUD = USD 0.74427

portfolio was. The large weight is due primarily to the large dividend that is expected to be paid out in October, which will be considered a return of capital, meaning it will be tax free. When this dividend is paid out, our weight should drop meaningfully.

Our goal is to deliver to our investors what we would buy if we were on the other end. To get there, we are taking the advice of Angela Duckworth in her recent book, *Grit:* "Most dazzling human achievements are, in fact, the aggregate of countless individual elements, each of which is, in a sense, ordinary." We are not trying to reinvent the wheel here. We are, however, working tirelessly to produce salubrious risk-adjusted returns. Thank you for your investment.

SELECT PORTFOLIO – COMMENTARY BY JAYME WIGGINS, CFA, CIO AND GREG ESTES, CFA, CO-PORTFOLIO MANAGERS

For the three months ending June 30, 2016, the Intrepid Select Portfolio (the "Portfolio") returned 9.87%, net-of-fees, compared to a 3.79% gain for the Russell 2000 Index and a 3.99% for the S&P 400 Midcap Index. Through the first six months of the calendar year, the Select Portfolio is up 17.63%, net-of-fees, while the Russell 2000 and S&P 400 have gained 2.22% and 7.93%, respectively. The Select Portfolio represents a more consistently fully invested version of Intrepid's small and mid-cap strategies. As a result, it can be more volatile than Intrepid's other portfolios. We launched the Select Portfolio to serve clients who only want exposure to Intrepid's security selection and do not want cash to ever comprise a significant portion of their portfolios, even when markets may be expensive.

The top three contributors to the Portfolio's performance in the second quarter were EZCORP (CUSIP 302301AB2), Silver Wheaton (ticker: SLW), and Corus Entertainment (ticker: CJR/B CN). The yield on EZCORP's convertible notes tightened to 9% after widening to 18% last quarter. The company's pawn business showed accelerating improvement, as increases in pawn lending more than offset reduced jewelry scrapping. EZCORP is actively marketing for sale its troubled Mexican payroll withholding business and will soon place that subsidiary into discontinued operations. We believe this will streamline financial results and help investors gain comfort with the firm's core pawn operations.

Silver Wheaton, along with our other holding Sandstorm Gold (ticker: SAND), participated in the powerful rally in precious metals stocks this year. Gold and silver are up 25% and 35%, respectively, year-to-date, as investors seem to be embracing precious metals as protection against ongoing currency debasement. When streaming companies like Silver Wheaton and miners next report financial results, it will be the first time in several years that earnings are assisted by higher metals prices. Although Silver Wheaton and Sandstorm have become more fully valued in relation to gold and silver prices, we feel that some continued metals exposure is warranted in light of historic desperation from central banks.

Corus Entertainment staged a partial rebound from multiyear lows. While reported results appeared good, they were propped up by a couple of one-time items. We haven't yet seen improvement in television advertising revenue, but soft advertising was mostly offset by strength in affiliate fees and merchandising and distribution revenue. We expect advertising to begin to recover in the coming quarters as Corus benefits from its integration with Shaw Media. Half of all women watching a cable channel in Canada are now watching a Corus-owned network, which places the company in a strong competitive position with advertisers. Corus remains a top holding for us, trading at approximately 8.5x estimated free cash flow.

The Portfolio's three largest detractors in the second quarter were Oaktree (ticker: OAK), Teradata (ticker: TDC), and Mattel (ticker: MAT). Oaktree's stock decline was exacerbated by the Brexit vote, which tended to impact financial firms in particular. However, we believe that increased volatility brought about by the UK's decision to leave the EU could actually provide a distressed investor like Oaktree with additional opportunities for investment. Teradata had a largely benign quarter. Interestingly, after the announcement of first quarter earnings, the longtime CEO Mike Koehler stepped down and was replaced by board member Victor Lund. In the ensuing quarterly call, the new CEO made it clear he wants to accelerate the pace of changes at Teradata to launch more software-only offerings to enable smaller customers to apply data analytics accessible via the public cloud, such as Amazon Web Services. We liked what we heard and look forward to seeing those

changes take shape in the next couple of quarters. Lastly, Mattel, which has been undergoing its own turnaround, posted quarterly results that were not as good as many analysts had hoped for after the improvement shown in 2015. However, the company has been engaged in a significant cost-reduction program for several quarters, which will begin to bear fruit in the 3rd and 4th quarters. We expect to see improved gross margins on products sold due to these cost reductions.

We did not purchase any new positions in the past three months, although the Portfolio has a new security resulting from SanDisk's acquisition by Western Digital. The deal closed at the $67.50 cash and 0.2387 shares per share of SNDK on May 13, 2016. We added to our relatively small share position in WDC due to what we believe is an oversold share price. Western Digital is in both the Hard Disk Drive (HDD) business and the Solid State Drive (SSD) business with SanDisk. HDDs tend to be found in desktops and servers. They have spinning disks and can hold of lot of information. SSDs tend to be smaller, have no moving parts, and can access data more quickly than HDDs. While the Hard Disk Drive is a very mature market, the Solid State Disk is considered the future of data storage. Now, Western Digital has both. In addition, SanDisk has a joint venture in which it manufactures its own flash chips, which are the components needed to construct SSDs. This makes SanDisk a vertically integrated SSD manufacturer. What we like about owning WDC is that it has a lot of room to reduce costs, not only by integrating SanDisk, but also because it has received permission from China's Ministry of Commerce to integrate another subsidiary, Hitachi Global Storage Technologies (HGST). Previously, the Chinese government had mandated that WDC run HGST as an entirely independent subsidiary. Now, it can integrate it more fully, from management to manufacturing. Only the sales group must be separate. With the integration of HGST and SanDisk, Western Digital has an opportunity to drive out redundant costs. In addition, Western Digital has very strong relationships with Original Equipment Manufacturers (OEMs), which buy its Hard Disk Drives. We believe that it can leverage those relationships to sell more of SanDisk's Solid State Drives into the OEM channel. We believe that we have acquired shares of Western Digital at an attractive discount to intrinsic valuation.

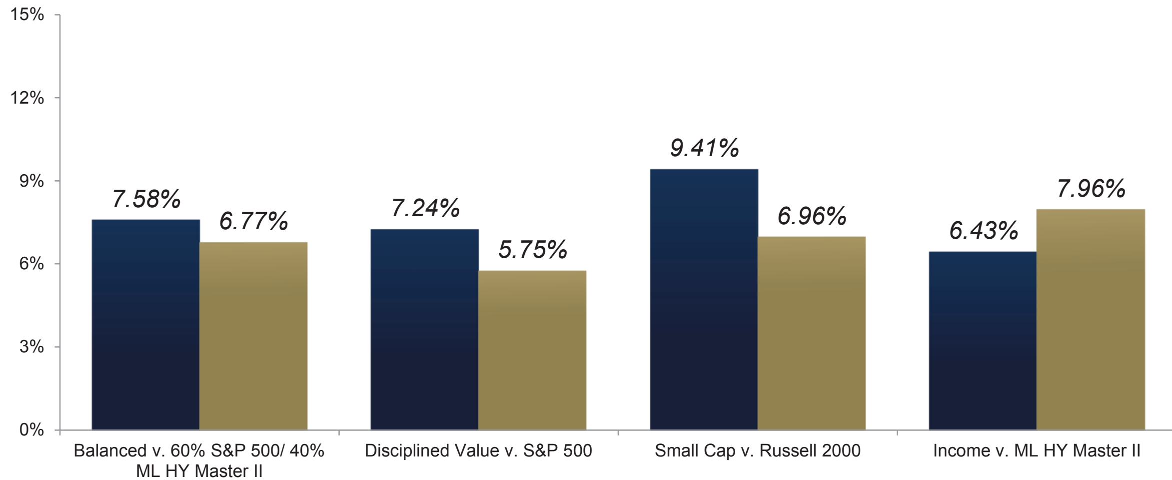
During the second quarter, the Portfolio sold two holdings: Unit Corp. (ticker: UNT) and Starz (ticker: STRZA). Unit did not work out for us. We believed Unit's superior balance sheet would enable it to survive long enough for commodity prices to recover, leading to an attractive return. However, two things happened that reduced the likelihood of a favorable outcome for Unit. First, the commodity recovery has taken longer than we anticipated, which has led to ongoing erosion in the balance sheets of E&P operators. Secondly, while many other E&Ps took advantage of favorable capital markets to raise equity during the first half of 2015, Unit did not issue stock. This move made sense if oil and natural gas prices recovered swiftly, but because they did not, Unit's reluctance to fortify its balance sheet diminished its superiority on this front. We lack conviction that oil and gas prices will rise quickly enough to levels that put Unit back into a position where it is not depleting value. As a result, we exited our position during a rebound in E&Ps this quarter.

We sold Starz in the past week after several media outlets reported that the company was in discussions to be acquired by Lionsgate, which proved to be true. Interestingly, we bought Starz in February below 8x EBIT after the stock plummeted on investor concerns that a deal with Lionsgate was less likely. We sold it on the rumor that a deal was in the works, as the stock reached our valuation. Starz is a good example of how Intrepid can take advantage of vacillating investor sentiment. Another Portfolio holding that benefited from M&A this quarter was American Science & Engineering (ticker: ASEI). In last quarter's letter, we opined that *"shareholder value would be maximized if ASEI were part of a larger defense technology firm."* On June 20, 2016, ASEI announced that it would be acquired by OSI Systems. We were disappointed by the modest premium paid and believe OSI is getting the better end of this transaction. Nevertheless, ASEI has been a profitable investment for the Portfolio, as we added to the position after last quarter's post-earnings collapse. Thank you for your interest in our Select Portfolio.

ANNUALIZED PERFORMANCE

TRAILING 15 YEAR RISK/RETURN

JUNE 30, 2001 TO JUNE 30, 2016

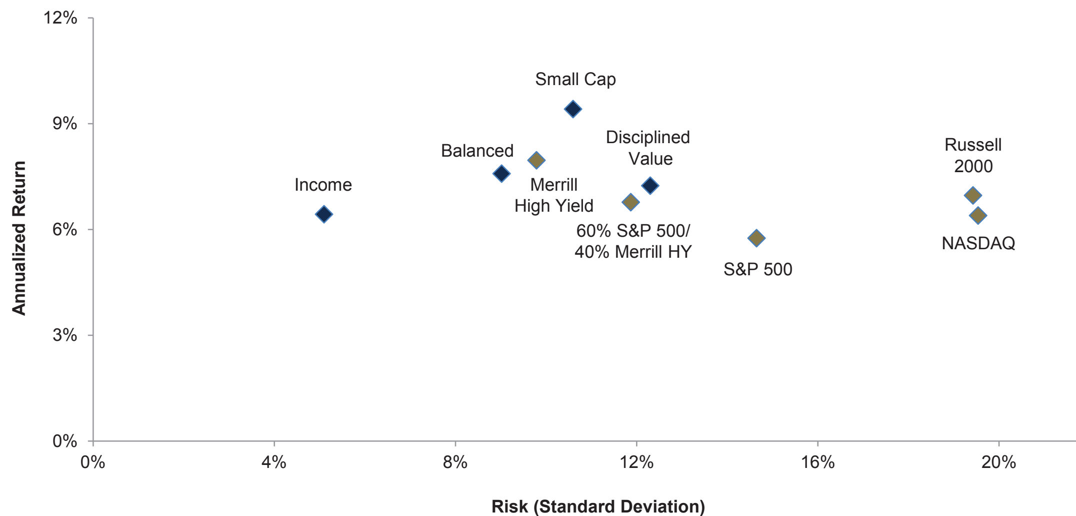


- Past performance is no guarantee of future results. Intrepid composite returns are presented net of investment advisory fees and all returns are presented annualized for the 15-year period ending June 30, 2016. Returns reflect the reinvestment of dividends and other earnings. The volatility of the 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.

RISK ADJUSTED RETURNS

TRAILING 15 YEAR RISK/RETURN

JUNE 30, 2001 TO JUNE 30, 2016



- 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 June 30, 2016. 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.