Intrepid Capital Funds
the constant pursuit of value

INTREPID INCOME FUND

3rd QUARTER 2014 COMMENTARY

3Q 2014

SEPTEMBER 30, 2014

PERFORMANCE

	Inception Date	Total Return Qtr.	Total Return YTD	Total Return 1 Year	Average Annualized Total Returns as of September 30, 2014 3 Year	5 Year	Since Inception
Intrepid Income Fund - Inst.^	08/16/10	-0.56%	1.86%	3.38%	4.83%	5.11%	4.56%
BAML High Yield Master II Index		-1.92%	3.61%	7.23%	10.95%	10.40%	8.28%
Barclays US Aggregate Bond Index		0.17%	4.10%	3.96%	2.43%	4.12%	5.16%

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

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

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

Per the prospectus, the Fund's annual operating expenses (gross) for the Institutional Share Class is 0.98%. The Fund's Advisor has contractually agreed to waive a portion of its fees and/or reimburse expenses such that the total operating expense (net) is 0.90% through 1/31/15. Otherwise, performance shown would have been lower.

October 1, 2014

Dear Fellow Shareholders,

High-yield bonds posted the worst quarterly performance since 2011 after yields hit record lows (and prices record highs) at the end of June, as measured by the BAML HY Master II Index (the "Index"). The asset class exhibited renewed volatility that had not be experienced in over a year, declining close to 2% through July, then recovering all of the losses and more by the end of August before falling more than 2% in September. Investors seemed to reassess the credit risk of these less- than-investment-grade businesses and became spooked by the prospect of rising interest rates (who'd have thought it was a bad idea to lend to a *money-losing* business at 6% for eight years?). Corporate CFOs may have also come to the realization that the borrowing environment was perhaps the most attractive in history. High-yield companies came to the new issuance market in force in September, and investors demanded more attractive terms to fork over their cash.

The September sell-off was broad but unfortunately fairly shallow. The median return of the more than 2,000 bonds in the index was only -1.5%. However, there were pockets of extreme risk aversion. Forty-six issues in the index lost more than 10% in the month, and eight issues lost more than 30%. These results were mostly concentrated in the most leveraged borrowers, with a preponderance of leveraged buy-outs (LBO), offshore oil and gas drillers, energy producers, and coal miners. As regular readers of our letters know, we typically seek to lend to higher-quality high-yield borrowers, and therefore were not involved with any of these companies.

Significant BAML HY Master II Losers - September 2014

Leveraged Buy-Outs		Offshore Drilling & Energy Producers		Coal and Iron Miners	
Gymboree	-50.8%	Hercules Offshore	-13.7%	Walter Energy	-40.2%
Altegrity	-45.6%	Vantage Drilling	-10.3%	Arch Coal	-26.7%
Jones Group	-14.0%	Endeavour International	-47.5%	Cliffs Natural Resources	-18.9%
Toys R Us	-10.4%	Quicksilver Resources	-34.7%	Alpha Natural Resources	-14.1%

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The Intrepid Income Fund (the "Fund") performed well in the quarter due to the defensive posture we've maintained for quite some time. The Fund returned -0.56% in the quarter, while the Index returned -1.92%. The Barclays Aggregate Bond Index, which represents the broad universe of investment-grade bonds, rose 0.17%. In the Fund's fiscal year ended September 30, 2014, the Fund returned 3.38%, while the Index rose 7.23% and the Barclays Aggregate increased 3.96%. While our defensive positioning and high cash balance helped us to outperform the Index in the quarter, it also led to underperformance in the fiscal year as high-yield bonds rallied.

Top Ten Holdings	(% of net assets)
Northern Oil and Gas, 06/01/2020, 8.000%	4.9%
EPL Oil & Gas, 02/15/2018, 8.250%	4.6%
Smith & Wesson Holding, 6/15/2017, 5.875%	4.5%
Brown Shoe, 05/15/2019, 7.125%	4.1%
Pitney Bowes International Holdings, Inc.	4.1%
Regis, 12/05/2017, 5.750%	4.0%
Speedway Motorsports, 02/01/2019, 6.750%	3.8%
Ruby Tuesday, 5/15/2020, 7.625%	3.2%
PHI, 3/15/2019, 5.250%	3.1%
AuRico Gold, 04/01/2020, 7.750%	3.0%

Top ten holdings are as of September 30, 2014. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security.

The largest contributors to the Fund's performance in the quarter were AuRico Gold 7.750% due 4/01/2020, Pitney Bowes 6.125% preferred stock, and Ruby Tuesday 7.625% due 5/15/2020. All three issues constitute sizeable positions in the portfolio, and each significantly outperformed the index in the quarter. Our positions in AuRico and Pitney Bowes are relatively new, and both companies were discussed in recent quarterly letters. AuRico's Young-Davidson underground gold mine has been ramping production faster than expected, reducing one of the primary concerns investors may have with the credit quality. The Pitney Bowes preferred stock was relatively immune to the high-yield sell-off due to the business quality and upcoming call date in 2016. Lastly, Ruby Tuesday continues to be one of the higher-yielding securities in the portfolio. This may have resulted in portfolio managers' reluctance to sell the notes to raise cash.

For the first time in several quarters, a few of the Fund's holdings detracted from performance. Our two largest positions are in energy producers (EPL Oil & Gas and Northern Oil and Gas), and the sector as a whole sold off materially as oil prices fell. Investors indiscriminately sold most energy bonds without regard to credit quality. We believe these two issues have unique qualities that bolster the credit quality beyond that of the average energy company. EPL was recently acquired by a larger energy business with the use of debt financing, but we believe investors are not recognizing the fact that the bonds have a senior claim on the acquired assets. EPL's assets will not guarantee any of the acquirer's debt until the notes are called, which we believe will occur early next year. Northern Oil & Gas (ticker: NOG) should be less impacted by lower oil prices due to its significant hedging program. As of June 30, 2014, the company had 65% of its production hedged for 2015 and was already layering in hedges for 2016. Both issues have been top performers in the past, and we expect them to contribute solidly going forward.

Our combined position in two issues of Rent-A-Center (ticker: RCII) was the top detractor in the quarter. Rent-A-Center's core rent-to-own stores have struggled amidst competition from alternative forms of financing for subprime borrowers. The company has offset the weakness with its own form of financing, where it enters into partnerships with large furniture and electronics retailers to complete rent-to-own transactions with customers who are denied credit. This model has been extremely successful, but it has yet to be proven in a recessionary environment. We believe this concept will continue to grow absent a recession, and if the economy were to turn south, the core stores should perform relatively well. We added to the position incrementally as prices declined, which now constitutes slightly less than 3% of the Fund's assets.

The sell-off in high-yield bonds allowed us to initiate positions in several new names that we had been watching for some time. In the quarter ended September 30, 2014, we purchased Era Group 7.750% due 12/15/2022, EZ Corp 2.125% convertible notes due 6/15/2019, Mobile Mini 7.875% due 12/01/2020, Scotts Miracle-Gro 6.625% due 12/15/2020, Smith & Wesson 5.000% due 7/15/2018, Speedway Motorsports 6.750% due 2/01/2019, and Teleflex 6.875% due 6/01/2019. Regular readers will recognize many of these companies. Over the years we have owned other issues of Mobile Mini, Scotts Miracle-Gro, Smith & Wesson, Speedway Motorsports, and Teleflex. In most cases the prices of these bonds did not drop significantly, but cash needs forced managers to sell what they could, and we were willing to step in at what we believe were attractive yields. EZ Corp (ticker: EZPW) was found by our equity team more than 18 months ago. The stock declined significantly in July after the controlling shareholder replaced members of the management team. The convertible bonds fell to a level where we felt we were receiving the conversion option at a substantial discount.

The only "new" idea that was sourced and purchased in the quarter is Era Group 7.750%. Era Group (ticker: ERA) is one of the largest providers of helicopter transportation services in the U.S., primarily serving the offshore oil and gas markets in the Gulf of Mexico and Alaska. While helicopter operators are exposed to fluctuations in energy prices, most of the companies' sales are tied to production rather than exploration, which provides a much more stable revenue stream. The industry structure as a whole has improved over the last few years as larger and more capable aircraft are required to service platforms further offshore. This has resulted in operators competing more on capability and service instead of price. We believe Era is performing below normalized levels due to several company-specific issues that should be remedied shortly. Additionally, the company's owned fleet has significant value that offers protection potential to bondholders.

One material position was called in the quarter; Cott Beverages 8.125% due 9/01/2018. At the end of the quarter, cash comprised 33% of the Fund's assets. We expect call activity to increase in the fourth quarter and into 2015, and therefore cash levels should increase in the absence of attractive opportunities to deploy capital. Despite what was a favorable quarter for our defensively positioned portfolio, yields offered by high-yield bonds are only slightly more attractive than they were three months ago. This is particularly true with the higher-quality businesses we seek to lend to. To put this in perspective, consider that since the credit crisis the Index has recorded a quarterly loss in only four of the last twenty-three quarters. Further, the Index fell more than 2% in only one of these periods; the third quarter of 2011. Nevertheless, we will continue to diligently search for undervalued securities on your behalf.

Thank you for your investment.

Sincerely,

Jason Lazarus, CFA
Intrepid Income Co-Lead Portfolio Manager

Ben Franklin, CFA
Intrepid Income Co-Lead Portfolio Manager

Mutual fund investing involves risk. Principal loss is possible. Investments in debt securities typically decrease in value when interest rates rise. The risk is generally greater for longer term debt securities. Investments by the Fund in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher rated securities. The Fund is non-diversified, meaning it may concentrate its assets in fewer individual holdings than a diversified fund. Therefore, the Fund is more exposed to individual securities volatility than a diversified fund. The Fund may invest in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods.

The Bank of America Merrill Lynch High Yield Master II Index (BAML High Yield Index) is Bank of America Merrill Lynch's broadest high yield index, and as such is comparable with the broad indices published by other investment banks. Bank of America Merrill Lynch US Corporate Index (BAML Corporate Index) is an unmanaged index of U. S. dollar denominated investment grade corporate debt securities publicly issued in the U.S. domestic market with at least one year remaining term to final maturity. Barclays Capital U.S. Aggregate Bond Index is an index representing about 8,200 fixed income securities. To be included in the index, bonds must be rated investment grade by Moody's and S&P. You cannot invest directly in an index.

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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