Intrepid Capital Funds
the constant pursuit of value

INTREPID ENDURANCE FUND

3rd QUARTER 2015 COMMENTARY

3Q2015

SEPTEMBER 30, 2015

PERFORMANCE

	Inception Date	Total Return Qtr.	Total Return YTD	Total Return 1 Year	Average Annualized Total Returns as of September 30, 2015 3 Year	5 Year	Since Inception
Intrepid Endurance Fund - Inv.	10/03/05	-3.99%	-5.19%	-6.03%	2.90%	5.15%	8.99%
Intrepid Endurance Fund - Inst.	11/03/09	-3.92%	-4.97%	-5.68%	3.19%	5.43%	7.34%
Russell 2000 Index		-11.92%	-7.73%	1.25%	11.02%	11.73%	6.51%^

^Since Inception returns are as of the fund's Investor Class inception date. Since the inception date of the Institutional Class, the annualized return of the Russell 2000 Index is 13.28%.

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 and net) for the Investor Share Class is 1.40% and for the Institutional Share Class is 1.15% through 1/31/16.

October 1, 2015

Dear Fellow Shareholders,

It's a start, but it's not enough. A strange thing happened this quarter: the stock market declined. After a string of 10 consecutive quarterly gains, the S&P 500 index fell 6.44% over the prior three months. The Russell 2000 small cap index dropped 11.92%. Both indexes are in correction territory, with the Russell down 14.7% from its all-time high. The frothiest slice of the small cap market, the Russell Biotechnology Index, has cratered 31.1% from its peak. Yields on junk-rated debt have climbed rapidly, with more bonds in distress now compared to any time since the last recession. Market conditions are also bad in Europe and are downright scary in China, where authorities have practically outlawed bad-mouthing stocks in a desperate attempt to prop up markets. Investors are losing faith in the omnipotence of central bankers. Dovish actions by the Fed during its last meeting were followed by confused selling on Wall Street, in stark contrast to the Pavlovian buying of the past 5 years.

The last 8 weeks were unpleasant for most investors, painful for some, and devastating for a few. However, security prices are still unsupported by fundamentals, in our opinion. As of September 30, 2015, the Russell 2000 traded at 63x the aggregate net income of its constituents. The median P/E multiple was 30x and was meaningfully reduced by financial companies, which have a P/E of 18x. The non-financial companies in the index traded for 82x their collective free cash flow.[1] The median free cash flow multiple of this group was 41x.

The journey away from Fed-focused investing and back to normality could be difficult. The QE bubble has lifted small caps to levels that make the prices they reached during the housing

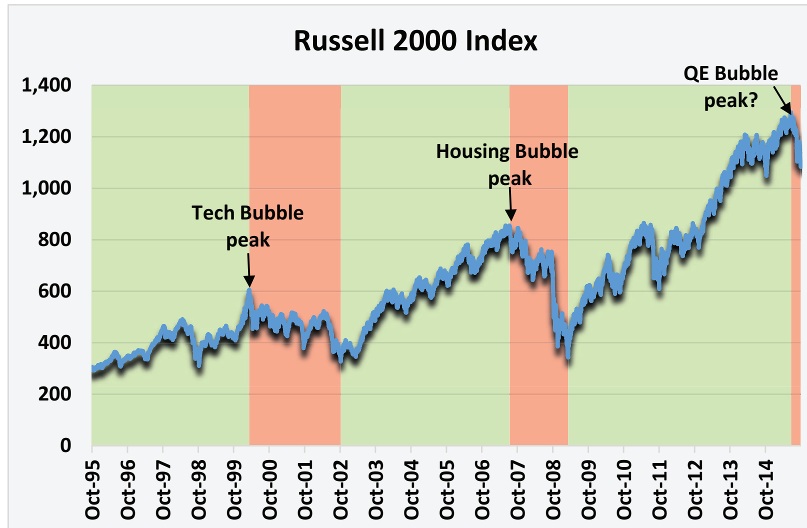
P/E for Largest Industries in Russell 2000 (September 30, 2015 - dollars in millions)

Industry	Mkt Cap	Net Income	P/E
Banks	$192,556	$11,563	16.7
REITS	$155,684	$4,939	31.5
Retail	$113,065	$4,226	26.8
Healthcare	$112,540	$428	262.8
Software	$95,762	($400)	***negative***
Commercial Services	$95,269	$1,954	48.8
Pharmaceuticals	$91,554	($3,381)	***negative***
Biotechnology	$69,987	($4,451)	***negative***
Utilities	$65,300	$2,854	22.9
Computers	$61,872	$1,093	56.6
Insurance*	$55,803	$3,747	14.9
Telecommunications	$55,686	$1,200	46.4
Electronics	$55,308	$1,954	28.3
Diversified Financials	$53,960	$2,361	22.9
Energy	**$53,580**	**($11,275)**	***negative***
Food & Beverages	$52,194	$2,008	26.0
Semiconductors	$51,691	$276	187.0
Internet	**$51,081**	**($860)**	***negative***
Transportation	$36,729	$664	55.3
Chemicals	$31,324	$882	35.5

*Source: Bloomberg, Intrepid Capital; *Excludes municipal bond insurers*

[1]It is difficult to define free cash flows for most financial companies because their balance sheets are part of their operations. See "Valuing Financial Services Firms" by Aswath Damodaran for more information on this topic.

and tech bubbles look pedestrian. We don't know whether June 23, 2015, will mark the peak of this investment cycle for the Russell 2000. We think the small cap market should trade significantly lower in order for valuations to appropriately reflect cash flows.



Source: Bloomberg

Most investors acknowledge the Fed's influence on stock prices throughout this bull market. Some justify current valuations by citing extremely low interest rates. The valuation multiple for a stock is computed as the reciprocal of the difference between an investor's required return and the growth rate of the company's cash flows. Today, many investors have lowered their required returns (i.e. discount rates) as a result of low interest rates. In doing so, they argue that the valuation multiples of stocks should be higher. Assume under normal circumstances an investor demands a 10% return for owning the equity of a company which is expected to grow its cash flow at a 5% perpetual rate. The "fair" free cash flow multiple is 20x (see table). If the investor reduces his discount rate by 2%, the multiple expands to 33.3x, a two-thirds gain.

1 / (Required return – Growth rate) = Cash flow multiple
Example I: Normal assumptions 1 / (10% - 5%) = 20x *Example II: Reduce required return by 2%* 1 / (**8%** - 5%) = **33.3x**

The future cash flow stream of the business hasn't changed. The investor is simply willing to pay a higher price for those cash flows. He has lowered his standards because of scant investment alternatives. We see two fallacies in this logic. First, the investor is implicitly assuming low interest rates are permanent. This has not been true throughout history. Nevertheless, we can appreciate the argument that the Fed will do everything in its power to suppress rates because the U.S. government and economy cannot afford higher borrowing costs without experiencing a painful adjustment. No one wants to be blamed for a recession, even if the associated cleansing of distortions in the system prevents a greater economic calamity down the road.

The second, and less discussed, problem with saying that low interest rates warrant high stock prices is that the other element of the valuation formula is being ignored. Investors lower their required returns, but they typically leave growth rates intact. Economic growth is not what it used to be. In spite of unprecedented monetary stimulus, the U.S. has experienced the weakest post-recession recovery since World War II. The reason the Fed has been able to keep risk-free rates near zero for almost 7 straight years without stoking inflation is because the economy has sputtered, with companies posting feeble organic revenue growth. Corporations will face headwinds in growing their future cash flows because the multi-decade tailwind of falling interest rates, tax rates, and production costs is probably over.[2]

[2] "Playing To Win: The New Global Competition For Corporate Profits." McKinsey Global Institute. September 2015.

Investors can't have it both ways. If low interest rates are permanent, they arguably should be reflected in both components of a valuation multiple. There is no change in valuations from a parallel shift downward in required returns and growth rates. The multiple stays the same. Stock prices then become driven by changes in earnings and cash flows. Aggregate earnings for small caps are no higher now than they were 10 years ago, yet stock prices have increased significantly.[3] This imbalance seems unlikely to persist.

Example III: Parallel 200 bps shift
1 / (10% - 5%) = 20x
*1 / (**8% - 3%**) = 20x*

For the three months ending September 30, 2015, the Intrepid Endurance Fund (the "Fund") fell 3.99% compared to an 11.92% drop in the Russell 2000. The Fund benefited from its high cash position, which ended the quarter at 67.9% of assets. The Endurance Fund's performance during the first half of 2015 was below our expectations, as we suffered losses on commodity names (both precious metals and energy) and one important non-commodity holding. However, the Fund significantly outperformed the Russell 2000 Index as the market's downturn gained steam in August and September.

We bought two new securities during the third quarter, Silver Wheaton (ticker: SLW) and Cubic Corp. (ticker: CUB). Silver Wheaton replaced two small positions in mining companies that we sold for a tax loss. We view this swap as an upgrade in quality for comparable value. Streaming and royalty companies are producing substantial cash flow in the current low metals price environment, while many miners are not profitable. Over the past 2 years, Silver Wheaton's share price has fallen by half—as much as the Junior Gold Miners ETF (ticker: GDXJ). In contrast, the shares of Silver Wheaton's streaming and royalty peers Franco-Nevada (ticker: FNV) and Royal Gold (ticker: RGLD) are roughly at the same level they were 24 months ago.

Silver Wheaton is currently undergoing a tax dispute with the Canada Revenue Agency, which claims the company owes hundreds of millions in back taxes and penalties. Silver Wheaton created offshore subsidiaries to collect cash flows from its streaming arrangements on mines located outside of Canada. The Canadian government believes the company should pay taxes on these profits. Management thinks otherwise and plans to fight the claims. In our valuation, we believe we have assumed a worst case outcome for this dispute. Silver Wheaton is trading for 12x free cash flow versus 25x and 19x for Franco-Nevada and Royal Gold, respectively. The firm's multiple would still be significantly lower than these comps even if you neutralized tax rate differences. The vast majority of Silver Wheaton's attributable production base comes from mines in the lowest quartile of production costs. Ignoring any future acquisitions, the company's existing streams and royalties will create growing production volumes through 2019. Collectively, Silver Wheaton and Sandstorm Gold (ticker: SAND) account for 3.6% of the Fund's assets. We believe these holdings are cheap at spot gold and silver prices and also may help defend the value of the Fund against further desperate QE actions by the Fed.

During the quarter, we also established a position in Cubic Corp. Cubic is the world's leading provider of automated fare collection systems for mass transit, with installations including Chicago, London, New York, and Sydney. The company estimates it has an 80% domestic and 40% global market share. We think there are major advantages in being the incumbent when transit contracts come up for bid roughly every 10 years. In fact, on the company's last 2 major contract wins, in Chicago and London, only one other bidder besides Cubic reached the final stage. Cubic believes it is the industry's only full service provider, integrating hardware, software, and services. Generally, competitors must form consortiums, and as the head of London's transit system wrote, *"…the requirement for end to end systems integration, and providing the associated levels of indemnity, may work against consortia, particularly if they have no track record."* Cubic has a track record dating back to the 70s for major transit system implementations.

Cubic is also the market leader in air and ground combat training systems for defense applications. During the past few years, the company's defense business has been negatively impacted by troop withdrawals from combat zones. We do not expect this to change anytime soon. However, the profitability of Cubic's transportation segment has been distorted by unusual factors, including the recognition of significant upfront expenses without concurrent offsetting revenue on a major contract with Chicago. Cubic is trading for 11x free cash flow. Shares are at the same level they were 5 years ago. We believe Cubic's underlying earnings power has grown over this period as it has extended its dominance in fare collection and has increased the recurring portion of its revenue stream.

[3]According to Bloomberg, GAAP EPS for the Russell 2000 were $16.81 in 2005 and $14.67 for the trailing twelve months ending September 30, 2015.

The Fund's largest detractors in the third quarter were Unit Corp. (ticker: UNT), Dundee Corp. (ticker: DC/A CN), and Silver Wheaton.[4] None of these was a large position for the Fund. Unit's stock has been clobbered by falling oil and natural gas prices. The shares have declined more than many E&Ps with higher leverage, like Chesapeake Energy (ticker: CHK). Unit had minimal commodity hedges going into the downturn, which has pressured its recent cash flow more than better-hedged peers. However, Unit also possesses one of the industry's better balance sheets. For competitors, hedges that locked in high oil prices are rolling off. As a result, the cash flows of most E&Ps will soon be on equal footing to Unit with regard to hedges. At that point, it will be apparent that Unit's leverage metrics are below most small and mid cap E&Ps. Unit is a unique energy business because it also has contract drilling operations and a midstream division. The assets comprising these segments provide extra levers of liquidity in the event that oil prices stay lower for longer. In such a scenario, we believe that most other comparably-sized E&Ps will have balance sheet troubles well before Unit. Although we remain concerned about how the declining health of the global economy could impact near-term energy demand, domestic oil production is decreasing. We anticipate an eventual rebound in prices. We believe Unit's shares will recover sharply.

Dundee Corp. is a different animal than the rest of the Fund's portfolio. It is a holding company with significant exposure to commodities and real estate. The financials are messy and take considerable time to analyze properly. Most of the company's subsidiaries are in the investment stage and are not generating cash flow. We purchased Dundee last year at a large discount to its net asset value. Since then, Dundee's NAV has declined because of weakness in commodities and also reductions in the market value of Dundee's sizable investment portfolio. However, Dundee's stock price has fallen even more than its NAV.

Dundee's CEO David Goodman has only been in his position for one year, and he is working to shift the business away from commodities and toward more predictable wealth management revenue. Mr. Goodman previously served as the CEO of DundeeWealth, which he helped grow into one of Canada's largest independent money managers before it was sold to Scotiabank in 2011 for CAD $3.2 billion. He's attempting to repeat that success, now that non-competes have expired. It won't be easy. Nevertheless, Mr. Goodman is committed to streamlining Dundee to reduce its NAV discount. In his latest shareholder letter, he wrote, *"There are a couple of historical examples of Canadian companies that have removed their significant holding company discounts. They did so by increasing the predictability of the company's cash flow, the transparency of the business and creating ongoing fee generating revenue."* Dundee is trading today at approximately 40% of tangible book value. We believe book value overstates fair value for some of Dundee's assets. Nevertheless, if we marked down to zero all of the company's resource-oriented investments (energy, agriculture, and precious metals), we believe the resulting valuation is still above where the stock is currently priced. It's not pretty, but Dundee looks like a buy to us.

The Fund's top gainers in the third quarter were Ingram Micro (ticker: IM) and Amdocs (ticker: DOX), which were up modestly in a tough market climate. Both are long-term holdings and good examples of companies that reliably compound intrinsic value. Ingram is the world's leading IT distributor. It requires substantial working capital in the form of inventory and receivables. We purchased Ingram in 2012 at approximately a 20% discount to its tangible book value and a larger discount to our estimate of intrinsic value. The company has historically earned a low double digit return on tangible equity, suggesting that Ingram should trade at a premium to book value.[5] Over the past 3 years, Ingram has shifted toward higher-return businesses. Margins and earnings have expanded, and management forecasts additional improvement. While the valuation gap for Ingram has largely closed, the company's balance sheet provides a valuation backstop not possessed by most companies.

Amdocs has delivered a steady stream of free cash flows since we purchased the stock in the spring of 2012. The firm is the world's leading provider of billing software and services to communication companies. Amdocs serves the industry's top providers such as AT&T, Vodafone, and Bell Canada. Three quarters of revenues are recurring, and Amdocs has deeply entrenched positions with customers. The company is growing most quickly in less-developed markets, where carriers have made fewer investments in technology. Amdocs' stock has arguably been the easiest one for us to own over our holding period. The stock hasn't had major drawdowns, the business has performed well, and the intrinsic value has grown at a predictable pace. Most of our holdings are not this hassle-free. We think Amdocs is fully valued today. Typically, we sell out of positions once they reach fair value. In this case, we have retained a stake because the price still looks reasonable to us, with Amdocs trading 12x trailing free cash flow (net of cash), and the valuation of this high-quality business has continued to grow.[6]

[4]Contribution analysis includes dividends and was performed on a currency neutral basis, since the Fund aims to hedge foreign currency price risk
[5]Assumes Ingram's ROE exceeds our required return
[6]We value most of our holdings at higher multiples than 12x free cash flow, but we have applied a higher tax rate than Amdocs is currently experiencing to cushion against the possibility that offshore tax havens are challenged

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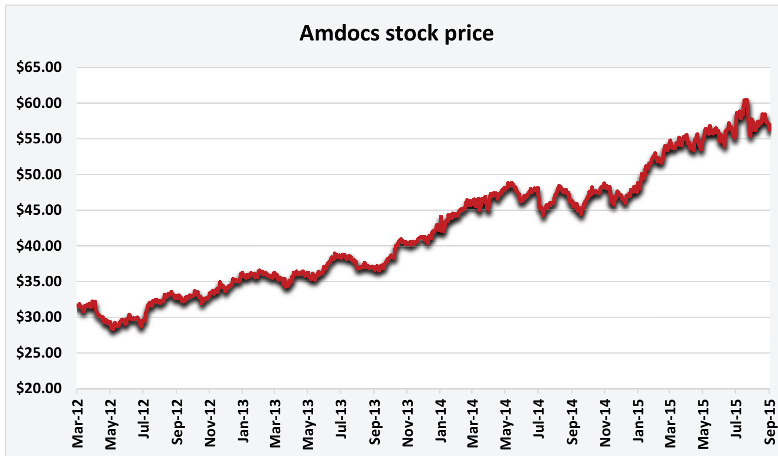

Source: Bloomberg

Past performance does not guarantee future results.

Top Ten Holdings	(% of net assets)
Ezcorp, Inc., 06/15/2019, 2.125%	4.1%
Tetra Tech, Inc.	4.1%
Corus Entertainment, Inc. - Class B	3.5%
Pitney Bowes Intl Pfd Stock	3.2%
Amdocs Ltd.	3.0%
Ingram Micro, Inc. - Class A	2.4%
Sandstorm Gold Ltd.	2.1%
Cubic Corp.	2.0%
Silver Wheaton Corp.	1.5%
Bio-Rad Laboratories, Inc. - Class A	1.4%

Top ten holdings are as of September 30, 2015. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security.

Perhaps the third quarter will turn out to be a brief negative blip in the market's inexorable ascent to new record levels. Plenty would call it a "healthy" correction. We would like to think that the price action during the past couple of months marks the beginning of a return to fundamentals. The futility of central bankers in steering economies is being exposed. Risky companies are facing higher borrowing costs. Acquirers' stock prices are once again falling when they announce M&A at all-time highs for equities.[7]

We have plenty of dry powder, and we welcome the chance to buy cheap small caps. The drop in stock prices this quarter moves us closer to that goal, and the moderate decline in the Fund's cash levels reflects our identification of incremental value. We believe that broad market valuations are still far closer to being wrong than right, but value is appearing in certain pockets of the market. For the first time in a long time, we feel like we own multiple names that could double before reaching our estimate of fair value. We also own a convertible bond yielding 11%, which is backed by assets worth twice as much as liabilities, in our estimation. These select opportunities give us hope that fairer prices are ahead. Like the sturdy camel, we can survive a long time on a little bit of value.

Thank you for your investment.
Sincerely,

Jayme Wiggins, CFA
Intrepid Endurance Fund Portfolio Manager

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

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

The Russell 2000 Index consists of the smallest 2,000 companies in a group of 3,000 U.S. companies in the Russell 3000 Index, as ranked by market capitalization. The Russell 2000 Biotechnology Index is comprised of the smallest Biotechnology companies in the Russell 3000 Index. The S&P 500 Index is a broad based unmanaged index of 500 stocks, which is widely recognized as a representative of the equity market in general. You cannot invest directly in an index.

Cash Flow measures the cash generating capability of a company by adding non-cash charges and interest to pretax income. Free Cash Flow measures the cash generating capability of a company by subtracting capital expenditures from cash flow from operations. 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. M&A refers to Mergers and Acquisitions. Earnings per Share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. The Price to Earnings (P/E) Ratio is calculated by dividing the current price of the stock by the company's trailing 12 months' earnings per share. Basis Point (BPS) is equal to 1/100th of 1%. GAAP (Generally Accepted Accounting Principles is a framework of accounting standards, rules and procedures defined by the professional accounting industry. Net Asset Value (NAV) is the value of the company's assets minus its liabilities. Tangible Book Value is equal to the company's total book value less the value of any intangible assets.

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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[7]http://www.wsj.com/articles/investors-give-cold-shoulder-to-deals-1443463297