Intrepid Capital Funds
*the constant pursuit of value*

# INTREPID DISCIPLINED VALUE FUND

## 3RD QUARTER 2016 COMMENTARY

3Q 2016

SEPTEMBER 30, 2016

## PERFORMANCE

| | | Total Return | | | Average Annualized Total Returns as of September 30, 2016 | | |
|---|---|---|---|---|---|---|---|
| | Inception Date | Qtr. | YTD | 1 Year | 3 Year | 5 Year | Since Inception |
| Intrepid Disciplined Value Fund - Inv. | 10/31/07 | 1.82% | 9.94% | 11.91% | 5.87% | 10.42% | 5.78% |
| S&P 500 Index | | 3.85% | 7.84% | 15.43% | 11.16% | 16.37% | 6.13% |
| Russell 3000 Index | | 4.40% | 8.18% | 14.96% | 10.44% | 16.36% | 6.24% |

**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 expense (gross) for the Investor Shares is 1.31%. 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 1.30% through 1/31/17. Otherwise, performance shown would have been lower.

October 3, 2016

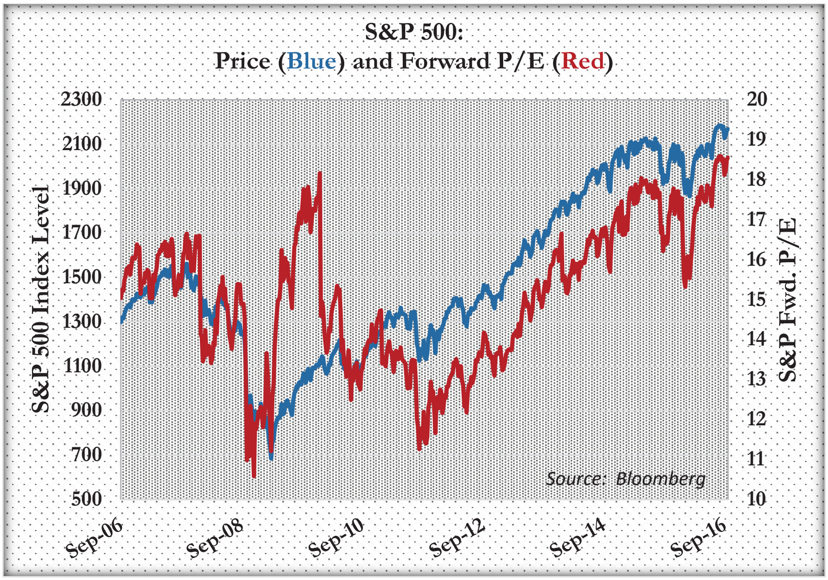
Dear Fellow Shareholders,

The market accelerated its run from the second quarter into the third, with the S&P 500 Index up 3.85% and the Russell 3000 Index up 4.40%. This compared to respective returns of 2.46% and 2.63% in Q2. The Intrepid Disciplined Value Fund ("the Fund"), which was a net seller in the quarter, trailed both indices in the most recent quarter with a return of 1.82% (the Q2 return was 3.78%). For the nine months of 2016, the Fund returned 9.94% versus 7.84% for the S&P 500 and 8.18% for the Russell 3000. Considering the cash level in the Fund over that time, we believe that is a striking outperformance. Because this letter marks the end of our fiscal year, we also note that for the trailing year, the Fund returned 11.91% compared to 15.43% for the S&P 500 and 14.96% for the Russell 3000. As you may surmise from these numbers, the last calendar quarter of 2015 marked a period of wide outperformance for the market indices compared to the Fund. We freely admit that sharp market rallies have not been typically kind to us on a comparative basis due to our high cash levels. That makes the nine-month performance comparison all the more interesting.

We have been steadfast in our view that equity markets are expensive. As we have written in previous letters, the median S&P 500 company is not growing earnings right now. In addition, according to Factset, S&P 500 earnings are not expected to grow in Q3 either.[1] In our view, the prospect of earnings growth is an important factor necessary to drive up the Price-to-Earnings Ratio (P/E ratio). Why would an investor pay more for a dollar in earnings unless that investor expected those earnings to grow in the future? With flat earnings, paying higher prices for the same dollar in earnings makes less sense.

Perhaps we can explain the market's behavior by looking at a slightly different metric. Consider the Forward P/E, which simply takes today's price level and divides it not by the previous year of earnings, but by the expected earnings for the coming year. This too has been ramping up. As a matter of fact, we can see that it has been on an upward trend since August 2011 with only a brief drop and recovery near the turn of this year.

1 Butters, John. Factset Earnings Insight. 30 September 2016.



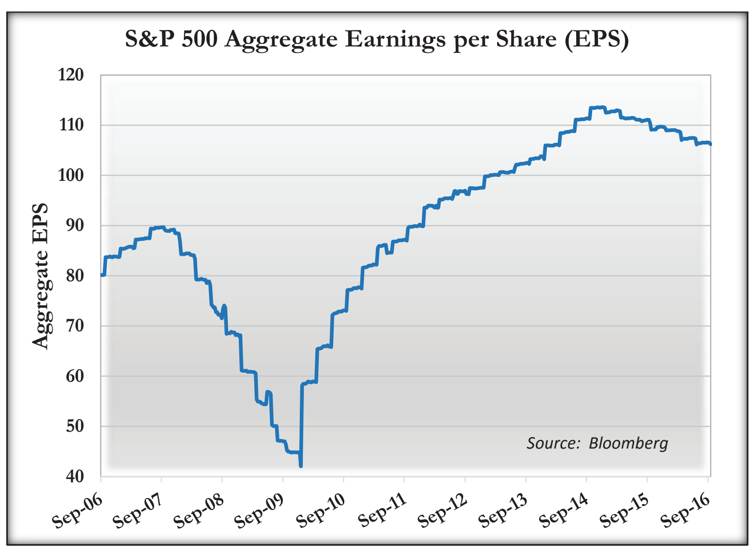

## Top Ten Holdings

| Top Ten Holdings | (% OF NET ASSETS) |
|---|---|
| Western Digital Corp. | 3.9% |
| Teradata Corp. | 3.8% |
| Northern Trust Corp. | 3.4% |
| Oaktree Capital Group LLC | 3.4% |
| Corus Entertainment, Inc. - Class B | 3.3% |
| Verizon Communications, Inc. | 3.0% |
| Mattel, Inc. | 2.6% |
| Apple, Inc. | 2.6% |
| Leucadia National Corp. | 2.5% |
| The Bank of New York Mellon Corp. | 2.4% |

Top ten holdings are as of September 30, 2016. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security.

The chart to the left shows the S&P 500 level (in blue) over the past ten years along with the S&P 500's Forward Price-to-Earnings ratio (in red) on a weekly basis. The Forward P/E topped out at 18.59 times in August 2016 and ended September at 18.56 times expected earnings. Put in different terms, we could say that investors are willing to pay $18.56 for every $1 in earnings expected to be generated by the S&P 500 over the coming year. Has a future dollar in earnings simply grown more valuable over time? Our answer is "No." The last time the forward P/E multiple was over 18, it was because the aggregate earnings per share for S&P 500 companies had declined to a 10-year low at the end of 2009. Have we seen a precipitous decline in aggregate earnings per share today? The answer, which we discuss below, is that aggregate earnings have only declined very modestly. By historical standards, we think that today's price for future earnings is rich.

The market, through the Wall St. analysts who estimate future earnings, is projecting a return to earnings growth beginning in Q4 2016. We think this is the rationale for the market's continued run in Q3. But let's take a walk back through the past ten years. Consider the chart below, which shows the aggregate Earnings per Share in the S&P 500 Index from Septembers 2006 through 2016. From the S&P earnings trough at the end of 2009 through the earnings peak at the end of 2014, the annualized earnings growth rate was 21.98% (an increase of about 270% cumulatively). Since the end of 2014, aggregate earnings per share in the S&P 500 have only declined 6.4% cumulatively. That is not much of an earnings decline. We think one of three things is happening here: 1) the past 1.75 years have been an extremely soft earnings recession and now S&P 500 companies will resume earnings growth, 2) weak earnings growth will take place, primarily because of an inflationary effect from extremely low interest rates, in which case the Forward P/E ratio is still too rich, or 3) the factors that have grown EPS from 2009 to 2014, such as tax minimization, stock buybacks, and wage reduction, continue to evaporate and leave aggregate earnings growth flat to down in the near future. We think (2) or (3) is more likely than (1) and we are positioned accordingly.



As we mentioned above, the performance for the Fund for the nine months of 2016 was 9.94%. The Fund began the period with 48% cash and ended the period with 52.9% cash. So what explains the outperformance? The biggest factor was our exposure to precious metals. The top two performers were Silver Wheaton (ticker: SLW) and Alamos Gold (ticker: AGI). On a sector basis, our exposure to Materials was the top contributor, accounting for about a third of the overall performance in the period. You may recall that for 2015, the most return-detracting sector was Materials, represented solely by precious metal miners. We believed then that these miners were selling below their respective intrinsic values, even when accounting for weakening gold and silver prices through 2015. We were able to add to our positions incrementally that year. Of course, as spot prices increased in 2016, we have been trimming these positions and/or selling entirely, such as our exit from Silver Wheaton in the third quarter. On the flip side, we had relatively little in the way of performance detractors during the nine-month period. Oaktree (ticker: OAK), Northern Trust (ticker: NTRS) and American Science & Engineering (ticker: ASEI) accounted for less total detraction than the contribution from Silver Wheaton alone.

During Q3, the top three contributors were Western Digital (ticker: WDC), Teradata (ticker: TDC), and Silver Wheaton. We have already mentioned the benefit we saw from Silver Wheaton throughout the year. Last quarter, we wrote that we believed that WDC had the opportunity to reduce costs and realize synergies through its acquisition of SanDisk. During the quarter, management also upped its guidance on revenue. The market price for flash chips, which the company now manufactures via its SanDisk purchase, has firmed up as well, which is a net positive for the storage company. Teradata is a data analytics company that is shifting from a hardware-only model to one which includes a software-as-a-service version through platforms such as Amazon Web Services and Microsoft Azure. The interim CEO, Vic Lund, is pushing the company to focus its efforts towards offering its products in as many delivery modes as possible to gain more clients. It is challenging, given the relatively tight current environment for client IT budgets. Given the medium-term timeline for the company to implement changes, we should expect volatility in this stock price given the short-term nature of investors.

The bottom three performance detractors for the quarter were Corus (ticker: CJR/B), Coach (ticker: COH), and Dundee (ticker: DC/A). For Dundee, several of the company's investments had bad news in the quarter. At the top of the list was its investment in TauRX, which has an Alzheimers drug in development which unfortunately had disappointing drug trial results. In addition, the company took a loss on a casino project and opted not to file a public offering on its organic farming business, Blue Goose. Corus posted stabilized but flat advertising revenues. We believe that, with an inflection point reached on advertising revenues, the stock price should benefit, but that has not happened yet. Finally, Coach has been posting growth in comparable store sales, and its new store concepts are performing well. However, Coach has been weaning itself from "juicing" revenue via steep discounting in an effort to protect its brand. It will also be reducing its presence in department stores by 25%, or almost 250 locations in fiscal 2017. This is all being done to protect that brand's reputation as an "aspirational luxury" brand. That brand perception is tough to maintain if a customer sees a full-priced bag in the Coach store selling for 40% off in a department store. Such a move can lead to lower revenue growth in the short-term, but we believe that it is the smart thing for Coach to do.

During the quarter, we exited three positions: Silver Wheaton, American Science & Engineering, and the EZCorp convertible bond. After an announcement in June, AS&E was acquired by OSI Systems (ticker: OSIS) on September 12th for $37 in cash. We deemed an equity investment in EZCorp (ticker: EZPW) too risky, so we had purchased the pawn operator's convertible bond back in Q3 2015. As with our investment in Silver Wheaton, the EZCorp bond price rose as the spot price of gold increased, so we exited the position.

The average discount to intrinsic value within the Fund was 21%. This is derived by taking each position within the portfolio and comparing its quarter-end price to our intrinsic valuation, and then finding the average of those 22 positions. The average discount increased from the previous quarter primarily because we exited positions that were selling for a premium to intrinsic value. Although the market is expensive, we continue to search for value. We thank you for investing alongside us.

Sincerely,

Greg Estes, CFA
Intrepid Disciplined Value 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 and medium sized 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 April 1, 2013, the Fund was named the Intrepid All Cap Fund.

The S&P 500 Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. The Russell 3000 Index is an index representing the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market. You cannot invest directly in an index.

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. Forward P/E Ratio is calculated by dividing the current price of the stock by the company's expected earnings per share. Earnings Per Share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock.

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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