Intrepid Capital Funds
the constant pursuit of value

INTREPID ENDURANCE FUND

3RD QUARTER 2016 COMMENTARY

3Q 2016

SEPEMTEMBER 30, 2016

PERFORMANCE

		Total Return			Average Annualized Total Returns as of September 30, 2016			
	Inception Date	Qtr.	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Intrepid Endurance Fund - Inv.	10/03/05	1.54%	8.34%	7.63%	2.39%	6.49%	9.24%	8.87%
Intrepid Endurance Fund - Inst.	11/03/09	1.64%	8.55%	7.85%	2.67%	6.76%	-	7.42%
Russell 2000 Index		9.05%	11.46%	15.47%	6.71%	15.82%	7.07%	7.29%^

^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 13.59%.

Performance data quoted represents past performance and does not guarantee future results. *Investment returns and principal value will fluctuate, and when sold, may be worth more or less than their original cost. Performance current to the most recent month-end may be lower or higher than the performance quoted and can be obtained by calling 866-996-FUND. The Fund imposes a 2% redemption fee on shares held for 30 days or less. Performance data does not reflect the redemption fee. If it had, returns would be reduced.*

Per the prospectus, the Fund's annual operating expenses (gross) for the Investor Share Class is 1.42% and for the Institutional Share Class is 1.17%. 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 1.40% and 1.15% through 1/31/17, respectively. Otherwise, performance shown would have been lower.

October 3, 2016

Dear Fellow Shareholders,

Please fill in the blank to this Wikipedia description: *"Some of the ill effects that ________________ has on society include a reduction in the value of real money; an increase in prices (inflation) due to more money getting circulated in the economy; a decrease in the acceptability of paper money…"* Did you guess "Quantitative Easing"? Close, but no cigar. This is part of the entry for "counterfeit money"—the world's second oldest profession.

The maximum penalties for counterfeiting are 20 years in the U.S., a life sentence in Japan, and death in China. The U.S. Treasury estimates there is $70 million of counterfeit currency in circulation. Almost everyone agrees that counterfeiting is bad. It's harmful to all except the people who get away with it. If you knew that your neighbors remodeled their kitchen and bought a new Mercedes with currency that they forged in their basement, you'd be at least a little irked, right? We don't like the idea of people getting something for nothing. It's not the American way. But is that changing?

The Federal Reserve has printed over $3.5 trillion of new money in the name of QE. That's 50,000 times as much as criminals have forged. With these funds, they've purchased government bonds and agency securities, igniting a cascading reduction in risk premiums across all asset classes. Last week, Fed Chair Yellen said it would be good for Congress to think about allowing the Fed to buy stocks too. One month ago, Fed Vice Chairman Stanley Fischer discussed negative interest rates with Bloomberg: *"If you're a saver, they're very difficult to deal with and to accept, although they typically go along with quite decent equity prices."* Ken Rogoff, the Harvard professor and former chief economist for the IMF, argues in his new book that cash should be eliminated so central bankers have an even greater ability to implement extreme monetary policies. Rogoff writes about negative interest rates: *"If you are a saver, you will simply withdraw your funds, turning them into cash, rather than watch them shrink too rapidly...Take cash away, however, or make the cost of hoarding high enough, and central banks would be free to drive rates as deep into negative territory as they needed in a severe recession."* A lifetime of hard work and thrift could be stolen from you in an instant.

Top Ten Holdings	(% OF NET ASSETS)
Pitney Bowes Intl Pfd Stock, 6.125%	3.3%
Corus Entertainment, Inc. - Class B	3.2%
Amdocs Ltd.	1.9%
iShares Gold Trust	1.8%
Dominion Diamond Corp.	1.7%
Dundee Corp. - Class A	1.7%
Baldwin & Lyons, Inc. - Class B	1.5%
Tetra Tech, Inc.	1.4%
Primero Mining Corp.	1.2%
Bio-Rad Laboratories, Inc. - Class A	1.1%

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

My teacher once told me that if I didn't have anything nice to say, don't say anything at all, but I didn't listen to her. You could collect more garbage by squeezing the heads of Ivy League finance professors than by trolling for trash in Rio's Guanabara Bay. Illegal counterfeiting is unanimously repugnant, but when it's performed by central bankers it's championed as a policy for the public good. It sure hasn't turned out that way. Easy money has created a windfall for a small slice of the population to the detriment of savers and many others. The worst consequences have not yet been felt but are coming one way or another. You cannot counterfeit your way to prosperity.

The Russell 2000 Index soared 9.05% in the third quarter, far outpacing gains in larger capitalization benchmarks. It also eclipsed the 1.54% gain for the Intrepid Endurance Fund (the "Fund"). Cash ended the quarter at 79.5% of the Fund, which is an all-time high, despite purchasing new positions. Aggregate earnings for the Russell 2000 constituents are negative and haven't been this low since the recession. The "value" (used loosely) of household financial assets versus disposable income is above the last two stock market peaks and any point prior. Social benefits account for a larger share of income than ever before. Corporate debt has doubled since 2007. Household net worth is larger relative to GDP than at any point in recorded history, going back to 1945. Here's the U.S. economy in a nutshell: record high stock prices, record low interest rates, falling corporate earnings, growing corporate borrowings, and bifurcated incomes tied to government transfer payments on the one end and the over-financialized economy on the other.

Over the past year, the convertible bonds of pawn operator EZCORP have been one of the Fund's top holdings. In an eerie parallel to the phenomenon where married couples start to look like each other, we've noticed that the Fund is being managed much like a pawn shop: we hold lots of cash, some gold, diamonds, and insurance. Intrepid Capital's investment process shares several similarities to pawn lending.

- Pawn shops only lend on a portion of the value of the collateral they receive, in order to protect themselves in case that value decreases.
  Intrepid always buys securities at a discount to our estimated fair value.

- Pawn lending is a stable business that often excels in tough times.
  Intrepid has historically outperformed its benchmarks during bear markets, and we favor businesses with less cyclicality.

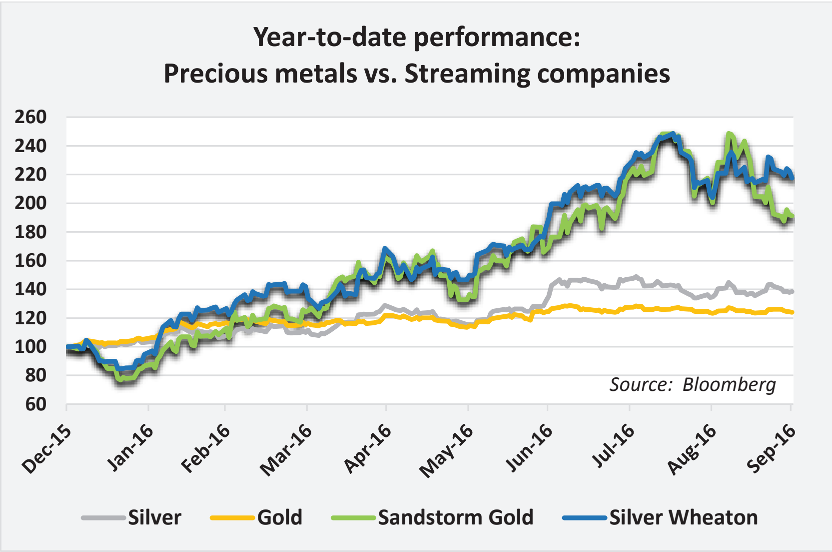
- A pawn shop is a backdoor play on sound money. Gold jewelry comprises around two-thirds of collateral. Higher gold prices increase the value of pawn jewelry inventory and contribute to customers taking out larger loan balances.
  Intrepid believes central banker antics are propping up capital markets and will lead to adverse economic outcomes. We think investor exposure to precious metals makes sense.

Two positions cost the Fund more than 10 basis points over past three months: Corus Entertainment (ticker: CJR/B CN) and Dundee Corp. (ticker: DC/A CN). Corus finally experienced the positive inflection in advertising that we had long been expecting, with flat year-over-year ad results for its television networks and good growth in subscription revenue. However, advertising performance at the networks Corus recently acquired from Shaw Media were down about 13%. Shaw's advertising had held up well during the period when Corus was struggling. Perhaps it's a reversion to the mean. By the end of the fiscal quarter ending February 28, 2017, Corus will have had sufficient time to integrate the Shaw assets and should begin to realize benefits from its increased scale.

Dundee's shares fell after one of its large investment holdings, TauRx, announced disappointing Phase III trial results for its Alzheimer's disease drug. In the Fund's Q415 letter, we said we had no special insight into the likelihood of a favorable result, so were not including any upside to our valuation, but noted that the payoff was potentially huge. It appears that other investors were assigning a higher probability to a positive outcome than us. Dundee's management has taken a few positive steps to improve the firm's trajectory, like selling Dundee's unprofitable retail brokerage business. We think Dundee trades at a sizeable discount to Net Asset Value (NAV), but we are not committing new dollars to the name until management presents a clear path to offsetting cash burn.

The Fund's top gainers in the third quarter were EZCORP converts (CUSIP 302301AB2), Silver Wheaton (ticker: SLW), and Tetra Tech (ticker: TTEK). There was nothing striking about Tetra Tech's latest results; the company is growing modestly and generating solid cash flow. After bottoming in February at around 60 (18%+ yield), EZCORP's bonds ended September near par value (2.5% yield). The bonds moved higher due to improving fundamentals on the pawn side, where EZCORP is outperforming peers. More importantly, the company successfully sold its unprofitable Mexican payroll withholding subsidiary for a higher amount than investors expected. We have liquidated most of our position, as the investment no longer offers an equity-like return. The EZCORP dispositions accounted for most of the increase in the Fund's cash in the quarter, along with the closing of OSI Systems' purchase of American Science & Engineering.

Silver Wheaton's stock increased further in Q3 along with the rest of the precious metals space. Silver Wheaton and Sandstorm Gold's (SAND) stocks became overvalued relative to silver and gold prices, so we exited both positions (see chart below).[1] We hope to own them again. We like the streaming business model, but their stocks began to imply precious metals prices that were much higher than spot ranges. We transferred a portion of the sale proceeds from these investments into the iShares Gold Trust (ticker: IAU), an ETF that is one of the most inexpensive ways to gain exposure to gold. It is also a much lower beta investment than Silver Wheaton and Sandstorm, which could prove useful if there is a temporary dip in precious metals prices.



We established a position in the convertible bonds of Primero Mining (CUSIP 74164WAB2), which mature on February 28, 2020. The yield at cost was over 11%. Primero is a gold miner and counterparty to both Silver Wheaton and Sandstorm Gold, so we were familiar with the company. In February, the Mexican tax authorities informed Primero that they sought to nullify the Advance Pricing Agreement (APA) established by the same authorities in 2012. The APA confirmed that Primero would pay taxes based on its realized silver price from its San Dimas Mine, which equaled a ~$4 per ounce streaming payment from Silver Wheaton rather than the higher, actual silver price.

1 All starting values are harmonized to 100 for visual presentation of subsequent performance.

The Mexican tax authorities have changed their mind, so they want to reverse their prior decision and apply the change retroactively.

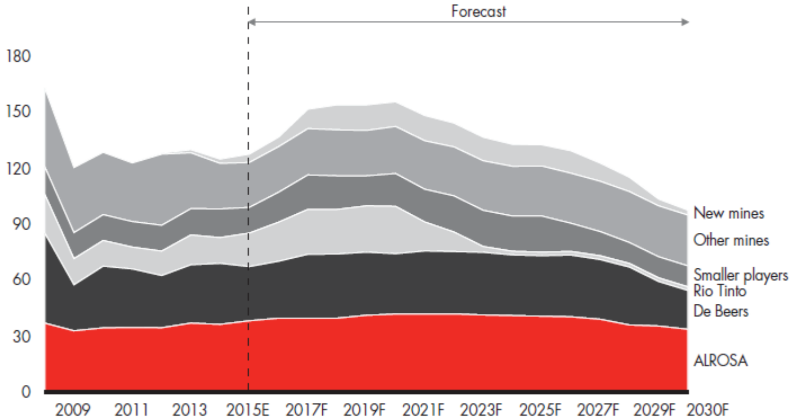
We do not believe Primero will be forced to pay back taxes, but we do anticipate they will pay higher taxes going forward. In our opinion, the San Dimas Mine can withstand the extra burden, as the cost structure should still be below prevailing gold prices. Primero issued equity in June, reducing the firm's Net Debt to below 1x anticipated EBITDA. Next year, the leverage multiple should decline further as the company moves past recent operating challenges. The yield offered on this small $75 million issue exceeds anything else we could find among gold and silver miners, yet we think the credit quality is solid. As with the iShares Gold Trust, we believe the price of this convertible bond will be less volatile than owning the equity of a streamer or gold mining company.

We purchased the stock of Dominion Diamond (ticker: DDC), which is the world's third largest diamond producer. The company owns interests in two mines in the Northwest Territories of Canada, one of the most politically stable mining jurisdictions in the world. Diamonds are not recession resistant and are tied to luxury spending and global GDP growth. Recent soft demand from China has contributed to weak prices. This may continue. However, a lack of investment into exploration has resulted in fewer development projects, creating favorable supply/demand fundamentals that should materialize in a few years as old mines are shuttered. Dominion's anticipated mix skews toward smaller stones that are desirable to growing middle classes in China and India, the second and third largest diamond consumers after the U.S.

The Global Diamond Report 2015 | Bain & Company, Inc.

Figure 36: Annual global diamond production is expected to hit about 150 million carats and then fall back to about 100 million in 2030

Rough-diamond supply, millions of carats, 2008–2030, base scenario



Note: Smaller players are Dominion Diamond, BHP Billiton for 2008–2012, Petra Diamonds, Gem Diamonds and Catoca
Sources: Company data; Kimberley Process; expert interviews; Bain analysis

Dominion's operating performance is expected to improve materially in the upcoming year, as the firm has transitioned toward higher-grade sections of its mines. The forward Enterprise Value to EBITDA multiple is 1.4x, the Price to Book ratio is 0.6x, and the dividend yield is 4.3%. Dominion's stock is valued at approximately half of the NAV multiple of comparable Canadian producers and has significantly underperformed peers over the past twelve months. The stock also appears inexpensive relative to Archon Minerals (ticker: ACS CN), a publicly traded firm whose only significant asset is a minority interest in a portion of one of Dominion's mines. Cash and diamond inventory account for 38% and 17%, respectively, of Dominion's market capitalization, which we believe provides downside protection. An activist shareholder is on the company's board, which may have influenced recent capital allocation decisions, including instituting a buyback and disposing of a highly valued office building in downtown Toronto.

While purchasing a diamond miner at this point in the global economic cycle may appear risky, we believe Dominion is undervalued based on the most likely long-term scenario for diamond prices. Unlike the fragmented oil industry, the top four producers control almost three quarters of global diamond production value and have demonstrated a willingness to restrain output in tough markets like 2008-2009. Additionally, we think owning a diamond company offers an inflation hedge that is comparable to a gold miner, even if diamonds are not viewed as safe haven investments like the yellow metal. Since the stock market bottomed in 2009, rough diamond prices (+69%) have modestly outperformed gold prices (+43%). However, a basket of diamond producers has absolutely trounced the performance of gold mining stocks, with the former quintupling in price while gold miners fell over the period.[2] We think this is partly due to the more favorable industry structure for diamonds.

We forgot to mention one other similarity between Intrepid Capital and pawn shops—spotting fakes is crucial to survival. A pawn operator doesn't stay in business long if he pays $1,300 an ounce for tungsten coins with a gold veneer. Likewise, an investment manager won't add any value for clients if they dive headfirst into every mania and are never willing to adopt a countervailing view. There's growing agreement that Fed policy isn't helping the economy, but the game of musical chairs continues in the capital markets. Many investors will continue to calibrate their every decision to the utterances of pompous autocrats. We're going to rage against The Machine.

Thank you for your investment.

Sincerely,

Jayme Wiggins, CFA, CIO
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. 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. Enterprise Value equals market capitalization plus debt minus cash. EV/EBITDA equals the company's Enterprise Value (EV) divided by Earnings Befoe Interest, Taxes, Depreciation, and Amortization (EBITDA). Basis Point is a unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument. Yield is the income return on an investment. It refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value. Price-to-Book (P/B Ratio) compares a stock's market value to the value of total assets less total liabilities. Beta is a measure of volatility of systemic risk of a security or a portfolio in comparison to the market as a whole.

Opinions expressed are subject to change, are not guaranteed and should not be considered investment advice or recommendations to buy or sell any security.

The Intrepid Capital Funds are distributed by Quasar Distributors, LLC.

2 Equal-weighted diamond basket includes DDC CN, LUC CN, MPV CN, SWY CN, and PDL LN. Gold miners represented by GDX. The period referenced is from 3/9/2009 to 9/30/2016.