Intrepid Capital Funds
the constant pursuit of value

INTREPID DISCIPLINED VALUE FUND

4th QUARTER 2014 COMMENTARY

4Q2014

DECEMBER 31, 2014

PERFORMANCE

	Inception Date	Total Return: Qtr.	YTD	1 Year	Average Annualized Total Returns as of December 31, 2014: 3 Year	5 Year	Since Inception
Intrepid Disciplined Value Fund - Inv.	10/31/07	2.20%	7.77%	7.77%	12.18%	10.38%	6.39%
S&P 500 Index		4.93%	13.69%	13.69%	20.41%	15.45%	6.36%
Russell 3000 Index		5.24%	12.56%	12.56%	20.51%	15.63%	6.58%

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 1.59%. 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 1/31/16.

January 2, 2015

Dear Fellow Shareholders,

Stocks rallied in the fourth quarter to finish strong, with the S&P 500 Index up 4.93% in the quarter and the Russell 3000 Index up 5.24%. The Intrepid Disciplined Value Fund ("the Fund") finished the fourth quarter with a gain of 2.20% as exposure to mineral and oil commodities weighed down the rest of the portfolio (more on the below). For the full year, the S&P 500 Index was up 13.69% and the Russell 3000 Index was up 12.56%. In our Q3 letter, we made note of the fact that large capitalization stocks were generally posting better returns than smaller capitalization stocks. The fourth quarter was a bit of a reversal, although the trend held for the full year. For 2014, the Fund posted a gain of 7.77%.

The stock market has been moving up since April 2009, which marked the end of the 2008/2009 bear market. Since then, the S&P 500 has posted an annualized return of 20.66% from March 31, 2009 through December 31, 2014. In contrast, the Fund has generated an annualized return of 15.46%. We believe that in times like these, when the market is in such an extended bull period, it is helpful to stop for a bit of introspection. Answering a few key questions can be helpful in understanding why we have done what we have.

With nearly 45% cash at year end, you are positioned very defensively and have been for some time. Why?

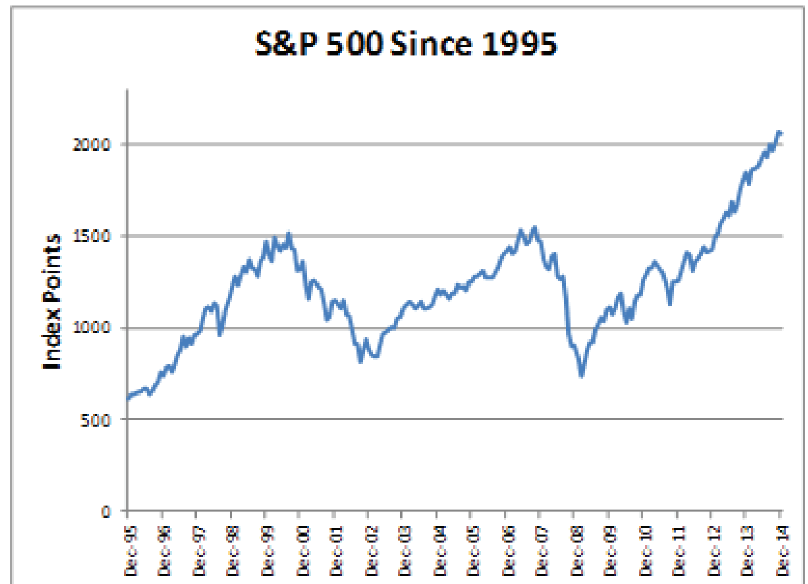
For many investors, the high cash level jumps out at them. Why should I pay to hold so much cash? However, we believe that investors pay us to invest their money as we would invest our own. As a matter of fact, these Funds are our primary long-term investments. We are a bottom-up manager that wants to own businesses trading at discounts to their intrinsic values. If we cannot find a company to buy, we will default to cash, rather than increase the weights in the companies we currently own. This is done to limit risk in any one company. Does it mean we are taking risk of relative underperformance in comparison to index benchmarks? Absolutely, but we inherently believe that it is preferable to underperform on a relative basis than perform poorly on an absolute basis. We believe therefore, that our clients are paying us primarily for our ability to assess the intrinsic values of businesses and own the ones that are trading for less than those businesses are worth. There are two parts to this assessment. The first is in buying businesses that we deem to be trading for discounts to intrinsic values. The second and often more difficult task, is selling—or not owning—businesses that are trading above their intrinsic values. Maintaining this process is critical. Therefore, in light of how we strive to conduct ourselves, a market that has posted an annualized gain of more than 20% over the past five years will make it *very difficult* to find stocks to buy and necessitate holding more cash.

Top Ten Holdings	(% of net assets)
Intuitive Surgical, Inc.	4.3%
Cisco Systems, Inc.	3.7%
The Bank of New York Mellon Corp.	3.0%
The Western Union Co.	2.7%
Teradata Corp.	2.7%
Staples, Inc.	2.6%
Northern Trust Corp.	2.6%
Oaktree Capital Group LLC	2.6%
American Eagle Outfitters, Inc.	2.3%
Coach, Inc.	2.2%

Top ten holdings are as of December 31, 2014. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security.

Shouldn't you change how you invest in light of the current environment?

This question arises often in times of relative underperformance. In the late 90s, the nascent Internet environment was referred to as a "New Paradigm" that justified owning stocks at extreme multiples. In the mid-2000s, a credit bubble propelled stocks to new heights. Today, it is the low interest rate environment set by the Federal Reserve that we believe is the primary fuel for this stock market. The question asked illustrates a way of thinking that is alien to us at Intrepid because it implies that an investor should go along with the herd—at least for some indeterminate period of time—and "ride the current wave." Would it have benefitted us to be fully invested during this low rate environment? Of course. Would it have violated our core philosophy and process to fully invest the Fund? Without a doubt it would have. By doing that, we would have surrendered our primary role as evaluators of businesses and become prognosticators of future interest rate changes. And by putting ourselves in that position, if (and when) the market begins to sell off, we will have placed ourselves in a very poor position to take advantage of future stock prices while fully participating in a declining market. We want to do what we believe is right for our clients, even if it means we might fall out of favor versus index benchmarks.



Source: Bloomberg

When will the market turn? Or what will cause it to turn?

The "when" question is never clear, except in one regard: it is usually unexpected by most investors. We are certainly not prognosticators, and one need look no further than to see how long we have had high cash level to confirm this. As to what might cause the market to turn, there are several possible answers to that question. For example, the decline in oil prices might be signifying a global economic slowdown, which in turn would be a negative driver for the broad equity market. Or a pullback could be caused by the possibility of increasing interest rates. With short term rates so low, money is effectively forced into higher risk asset classes such as equities. If interest rates increase then investors would have more return potential in lower-risk fixed income than they do today, which might cause a shift out of equities into other asset classes. While the Federal Reserve has discontinued its bond-buying program, it stills clings to muddled verbiage when discussing possible future rate increases.

For the quarter, the Fund's top performers were Staples (ticker: SPLS), Intuitive Surgical (ticker: ISRG), and Cisco Systems (ticker: CSCO). Staples was the top performing stock in the S&P 500 Index for the fourth quarter. This was not due to the most recent quarterly release, in which the company continues to trim its retail store footprint amid revenue growth challenges. It came when Starboard Value, an activist investor that had already pushed for the merger of Office Depot (ticker: ODP) and Office Max, announced it had acquired a 6% stake in Staples with the intent of possibly merging it with the new Office Depot. The prospect of a merged Staples and "Office Maxpot" sent the stock up significantly in mid-December. Certainly, a joint office supply operation would leave much more room to cut expenses and leverage the combined, existing footprint. We will continue to follow developments closely.

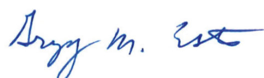
Intuitive Surgical posted solid quarterly results. Intuitive, which was the Fund's top-performing stock for the full year, has shown an improvement in procedure growth, which allayed fears from late 2013 over the efficacy of robotic-assisted

surgery. However, indications are that surgeons continue to adopt the use of *da Vinci* systems for procedures. In addition, there is great potential for growth outside of the U.S., where adoption is at much lower levels both from surgeons and for the types of procedures used in conjunction with the devices. Cisco Systems delivered a mixed quarter, with revenue weakness among its U.S. Service Provider customers, but the market appears to be more focused on a possible recovery and improvement in its much larger Switching segment.

On the opposite end of the spectrum, the Fund's bottom contributors were all related to commodities: two energy companies and one precious metal. Northern Oil & Gas (ticker: NOG), which owns a minority stake in multiple oil operations in the Bakken Shale region, has been hammered by falling oil prices, as have many producers in shale regions. Because there is a relatively higher cost per barrel to produce the oil in shale regions, the drop in oil prices has hit these regional operators much harder than other energy companies. However, Northern Oil & Gas has hedges in place to protect itself through much of 2016. While Newfield Exploration (ticker: NFX) is much more diverse in terms of both the geographies in which it operates and in its production of both oil and gas, it too has been hit by oil price declines. Rounding out the Fund's bottom contributors is Newmont Mining Corp (ticker: NEM), whose stock price has fallen as the price of gold went from a high on $1,250 per troy ounce in October to a year-end level of $1,184.

Our cash level remains elevated at 45%. The current average discount within the Fund, in which we examine the current stock price for each investment to our corresponding estimate of its intrinsic value, is 5%. This is about as low as it has ever been. While we continue looking for new investment opportunities, more often than not, we find ourselves passing on ideas after conducting research. On those occasions in which we have passed on purchase, many are strictly due to the current stock price being too rich for our tastes. Should there be a reduction in share price, we feel confident that we can deploy cash to acquire more securities in a short time frame. Thank you for your continued investment.

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.

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.