

Index Returns	
10/1/2015 to 12/31/2015	
Dow Jones:	7.70%
S&P 500:	7.04%
NASDAQ:	8.71%
Russell 2000:	3.59%
MSCI EAFE	4.71%

## QUARTERLY COMMENTARY

### January 2016

#### Dear Friends and Clients,

For the quarter ending December 31, 2015, the Intrepid Balanced Portfolio (the "Portfolio") increased 0.64%, net-of-fees, compared to the BAML High Yield Master II Index which declined 2.17% and the S&P 500 Index which increased 7.04%. For the calendar year 2015, the Portfolio decreased 6.27%, net-of-fees, compared to the decline of 4.64% of the BAML High Yield Master II Index and the gain of 1.38% of the S&P 500 Index.

In 31 years in the money management industry, 2015 will go down for me as one of the more frustrating years that I can recall. First off, I have never been comfortable losing money, especially someone else's money – in this case, yours. For a value-seeking, contrarian by nature investor, this past year reminds me a lot of 1999, when I thought quite possibly that the rules of finance had been stood on their head (they hadn't). In both years, people were willing to pay, or I would contend, grossly overpay, for just a handful of largely tech-centric equities that carried the rest of the market. The companies in the 2015 basket, including Facebook, Amazon, Netflix, and Google (Alphabet), are currently priced to perfection, according to many. This basket drove the S&P 500 Index to a slightly better than break-even year with a return of 1.38%. If this group of companies is pulled from the S&P 500 Index, the index would have declined 3.59%, a result that is more reflective of the 4.41% decline of the small cap centric Russell 2000 Index for 2015.

The operating mantra I hear repeated to me by individual investors is what I un-affectionately refer to as "The Curse of T.I.N.A." Simply put, There Is No Alternative to investing in the stock market as rates on money market funds and CDs are barely visible to the naked eye, even with the Federal Reserve nudging up interest rates in the middle of December 2015. So, what did these risk seekers earn for their impatience in not holding cash until "the price was right?" Not much. As mentioned, the S&P 500 Index earned 1.38% for the year 2015. The investment grade bond index, Barclays Capital U.S. Aggregate Bond Index, earned only 0.55% for the same time period. Either way, the average "investor" in stocks and bonds exposed his capital to substantial risk of impairment by leaving the comfort of cash.

Please don't get me wrong. I am not happy with the investment results we at Intrepid Capital delivered to you in calendar year 2015. I wish it wasn't so, but earning attractive risk-adjusted returns is not easy. If anything, it is very mentally taxing to not follow the herd.

I have spoken in the past, and most recently at our client presentation in November 2015, that most investors unwittingly "buy high and sell low" with the suboptimal results you might expect. According to the annual investor behavior study produced by DALBAR, poor timing decisions have resulted in returns for the average equity investor that are only half of the S&P 500's annual return over the last 20 years!<sup>1</sup> As CEO of Intrepid Capital, I see this tendency almost every day. Shareholders redeem their holdings because we are "not keeping up" with the market. Our investment process is, by design, not structured to "keep up" in the latter stages of a bull market. We believe the returns of the last three years of the stock market are an aberration. This may come as a shock to some readers, but the S&P 500 Index annualized return for the 15-year period ending December 31, 2015 was 5.00%; a much lower average when viewed over the long term. Comparatively, Intrepid's Balanced strategy had a return of 7.58%, net-of-fees, for the same period. Intrepid's other equity strategies, that have been in existence for longer than 15 years, have posted similar or even better returns.

<sup>1</sup> *Quantitative Analysis of Investor Behavior*. Boston: Dalbar, 2014.

The best I can tell from this seat that I have occupied for 21 years is that there might be some foul weather ahead. From a business valuation standpoint, with seven analysts searching the globe daily, there are not a lot of cheap, high quality securities available today. We hold ample cash and short-term fixed income securities to allow us to take advantage of better (lower) prices in the future.

The Portfolio's three largest contributors during the quarter were Fabrinet (ticker: FN), Microsoft (ticker: MSFT), and American Science & Engineering (ticker: ASEI). The Portfolio's three largest detractors for the quarter were Dundee (ticker: DC/A CN), Corus Entertainment (ticker: CJR/B CN), and Leucadia National (ticker: LUK).

Thank you for your patience, for which we strive to reward.

Best regards,

A handwritten signature in blue ink, appearing to read "Mark F. Travis".

Mark F. Travis

President/CEO

## SMALL CAP PORTFOLIO – COMMENTARY BY JAYME WIGGINS, PORTFOLIO MANAGER

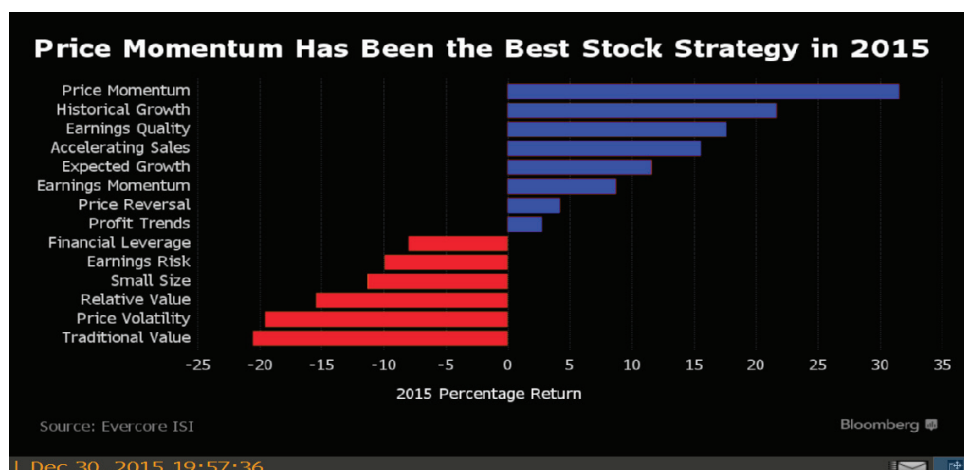
**Pyrite:** *The most common of the sulfide minerals, with a metallic luster and pale brass-yellow hue that give it a superficial resemblance to gold, hence the well-known nickname of fool's gold* (Wikipedia).

Former NBA rebounder Antonio Davis once said, “It’s fool’s gold if you are winning games and are not playing the right way.” Process drives long-term outcomes. In the short run, a good, disciplined process can fall flat. Likewise, a harebrained, haphazard process can appear golden when it’s untested.

The nation’s best performing large mutual fund in 2015, which will go unnamed, recently had nearly a 20% weighting in Amazon.com, followed by 18% in Home Depot, 6% in Netflix, and 5% in Priceline. A Bloomberg article lavished praise on the fund: “Unlike so many money managers today who chase big betas, acquiring assets with the most historical volatility and hoping for the largest returns to compensate for the risk, [Fund XYZ] is rooted in the valuation model extolled in the 1930s by Columbia University finance professors Benjamin Graham and David Dodd.”<sup>2</sup> Ben Graham was the father of value investing and Warren Buffett’s mentor. In his magnum opus, *The Intelligent Investor*, Graham cautioned that enterprising investors should refrain from investing in growth stocks “in which the excellent prospects are fully recognized in the market and already reflected in a current price-earnings ratio of, say, higher than 20.” Amazon’s P/E ratio is 923x, while Netflix’s is 292x. The P/E of Priceline is 26x and Home Depot is 25x. Ben Graham disciples are like fool’s gold—they can be found everywhere yet are mostly devoid of value.

Amazon and Netflix were the S&P 500’s two best performing stocks in 2015, up 118% and 134%, respectively. Most people love these services, and this adulation has transferred to their stock prices. Amazon and Netflix are disrupting their respective industries by offering more for less, and they are partly able to do so because shareholders have not yet demanded a profit from them. Four S&P tech stocks—Facebook, Amazon, Netflix, and Google (the “FANGs”)—accounted for \$450 billion of growth in market cap in 2015, while the 496 other stocks in the S&P collectively lost \$938 billion in capitalization. Amazon’s market capitalization is \$317 billion, which is bigger than the combined market values of Walmart, Target, and Costco. These three old economy retailers reported trailing twelve month GAAP net income of nearly \$17 billion, while Amazon’s net income was \$328 million.

According to Bloomberg, during the past year “Price Momentum” was the undisputed stock strategy champion, up 32%. Conversely, “Traditional Value” delivered the worst return, down about 21% for the year.



**Past performance does not guarantee future results.**

While momentum strategies, or buying what’s worked and selling what hasn’t, thrived last year, momentum trading is not investing. It’s speculating. Your bank account doesn’t know the difference, but you should, so you don’t emulate the explorers of times past who thought they discovered huge gold treasures only to later find they landed on a mountain of pyrite. Momentum trading relies on the Greater Fool theory, which supports the purchase of a security not based on its fundamentals but on the expectation that it can be offloaded at a higher price to another speculator, or a greater fool. It’s Russian roulette, where the stakes rise for each subsequent participant until the final bang.

<sup>2</sup> Winkler, Mathew A. “Guess Who’s the Year’s Top Stock Picker. Guess Again.” *BloombergView*. (December 29, 2015).

Investing is like poker, where luck matters in the short run, but skill and patience eventually separate the wheat from the chaff. The country singer Kenny Rogers distills abundant investment wisdom into one verse of his famous song, titled “The Gambler.”

*You've got to know when to hold 'em  
Know when to fold 'em  
Know when to walk away  
And know when to run  
You never count your money  
When you're sittin' at the table  
There'll be time enough for counting  
When the dealin's done*

The dealin's not done, so investors shouldn't count their money yet. Those fortunate enough to have ridden this rally all the way up should count their lucky stars instead. There's a whole other side to the investment cycle that we haven't experienced in over 6 years: the bear market. Our advice to speculators—walk away. If you're an Intrepid Small Cap Portfolio (the “Portfolio”) client, know that we have battened down the hatches and believe we are strongly positioned to ride out the anticipated storm. While we can't avoid all losses, we are doing everything in our power to limit the downside by only investing in securities we've identified as attractive discounts, while keeping a large slice of the Portfolio in cash awaiting better prices. As of December 31, 2015, 67.8% of the Portfolio was held in cash.

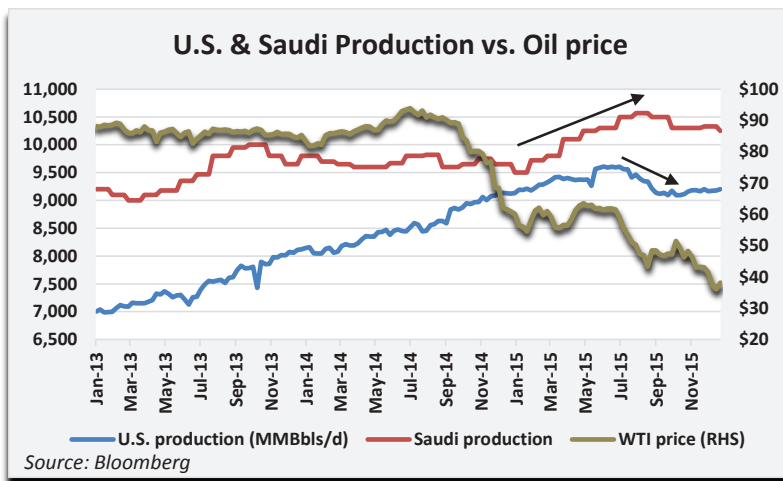
During the fourth quarter, the Intrepid Small Cap Portfolio declined 0.60%, net-of-fees, versus a 3.59% gain for the Russell 2000 Index. For the year ending December 31, 2015, the Intrepid Small Cap Portfolio lost 5.44%, net-of-fees, compared to a 4.41% decline for the Russell. If the year had been extended by one extra trading day, through January 4, 2016, the Portfolio and Russell Index would've returned -5.67%, net-of-fees, and -6.71%, respectively, as stocks stumbled out of the gate in 2016. Our performance wasn't good last year, as several of our positions performed worse than market averages. We aim to do better. For a couple of our losing positions, we got it wrong. For the rest, which are more meaningful holdings, we think the market has it wrong. Several of our positions are trading at the widest discounts to our valuations since we purchased them.

### **Where we got it wrong**

In our year end 2014 letter from 12 months ago, we explained our rationale for investing in a small basket of beaten down energy stocks. We argued then that we expected oil prices to recover sometime in the next 18 months because U.S. producers couldn't make money at existing low prices, so production would decline. We predicted that the first companies to bite the dust would be those producers with high leverage, high production costs, and minimal hedges. We stated that the U.S. was the swing producer in global oil markets, so the burden of solving the oil glut would fall on the U.S. energy industry, not Saudi Arabia. We maintain most of these beliefs.

Where we called it wrong on oil was in how long we thought it would take for prices to recover. Although U.S. production has declined about 4% from its peak, the response has been slower than we anticipated, especially considering the industry's substantial reduction in capital spending. More importantly, other nations such as Saudi Arabia and Russia have increased output as U.S. production falls, stymying the supply/demand adjustment process. There's a fight for market share. OPEC is broken. This may elongate the time for oil prices to recover.

Oil prices are lower than we expected them to be by now, and our exposure to energy negatively impacted the Portfolio in 2015. On a security-level basis, our biggest energy regret for the year was Contango Oil & Gas (ticker: MCF). That E&P had a great balance sheet, but its onshore oil portfolio placed it among the highest cost U.S. producers. Additionally, we came to find management quality to be below-average. Unit Corp. (ticker: UNT) was another costly position for the Portfolio in 2015. Unit was also a good balance sheet story with minimal hedges, like Contango, but we think Unit is a better operator with more



competitive assets. We expect Unit to survive the energy downturn that has already sent dozens of peers into bankruptcy. We continue to hold shares of Unit, which is our only direct energy investment today.

On the flipside, we made money on two other E&Ps, SM Energy (ticker: SM) and Newfield Exploration (ticker: NFX). These were larger enterprises that were better hedged than the aforementioned small caps. We sold both early in the year after solid short-term gains. Collectively, owning U.S. E&Ps impacted the Portfolio by -1.3% in 2015. We stand by our original prediction that oil prices will

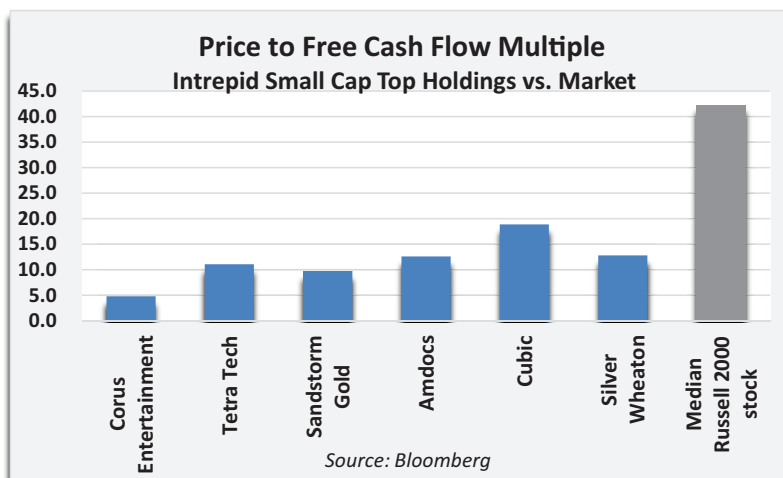
rebound, and the recovery from these lows could be sharp. Unfortunately, the lack of high-quality balance sheets in the small cap E&P space makes it challenging for us to safely express our views should the recovery continue to be delayed.

**Where market has it wrong (in our opinion)**

Our Canadian exposure clubbed us in 2015. Canadian equities fared worse than U.S. stocks because our northern neighbor's economy is more tied to commodity markets. Our two Canadian positions, Corus Entertainment (ticker: CJR/B CN) and Dundee Corp. (ticker: DC/A CN), both fell sharply and reduced the Portfolio's 2015 return by 3.2% (net of the associated gain on Canadian dollar currency hedges). We think the selling was massively overdone.

Corus's stock dropped due to weak organic advertising revenues and investor concerns that Canada's new à la carte television rules will impair the company's business model. We expect advertising to heal in the next couple of quarters as Corus more effectively monetizes its solid ratings. We also do not expect a severe outcome when cable providers beginning offering channels on an à la carte basis later this year. Corus's CEO has pledged that EBITDA will grow slightly in fiscal 2016. The dividend yield exceeds 10% and the stock is selling for less than 5x trailing free cash flow. There is no other television-based media stock on the continent that trades for anywhere near that multiple.

Corus may carry the lowest free cash flow multiple in our portfolio, but our next 5 largest equity positions also trade at less than half of the multiple of the typical small cap company.

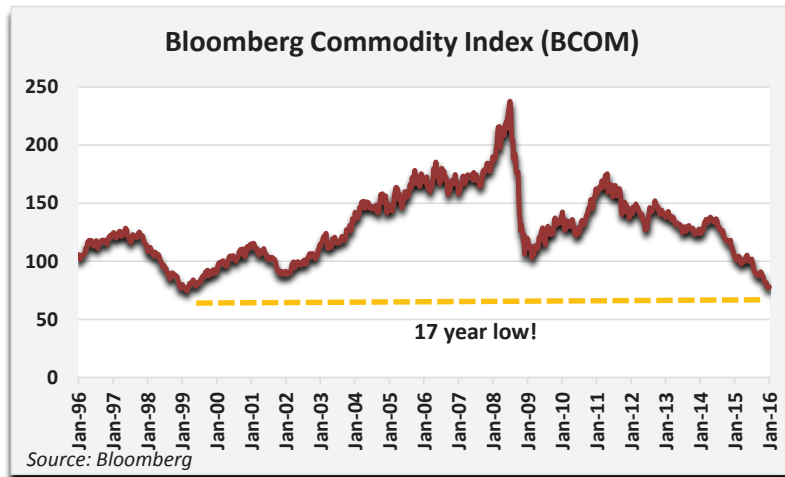


Dundee Corp.'s stock was drubbed in 2015. Dundee suffered through a perfect storm due to its Canadian domicile and commodity exposure. The Bloomberg Commodity Index is at its lowest level since 1999, reflecting bear markets in oil and gas, gold, agricultural products, and industrial metals. Dundee's largest publicly traded investments declined in price in 2015, and several of the firm's wholly owned subsidiaries delivered operating losses. Additionally, after Thanksgiving Dundee ran into friction regarding a proposed refinancing of one class of preference shares, which we effectively treat as debt. We think other investors may have

been concerned that Dundee does not have sufficient liquidity to pay off the preference shares at their June 2016 maturity, in the event it cannot refinance them on suitable terms. We do not share these concerns, given the company's unrestricted cash



holdings, credit facility, and material liquid investment portfolio. Lastly, going into year end, we believe Dundee's stock was impacted by tax loss selling, which could reverse in the New Year.



Past performance does not guarantee future results.

have no insight into the outcome here and we are not assuming any upside for TauRx, but at the rumored theoretical valuation Dundee's investment would grow in value by more than 10x.<sup>3</sup> As of December 31, 2015, Dundee was trading for 27% of its \$1 billion book value. We have taken punitive haircuts to the carrying value of several of Dundee's anchor assets and still arrive at a book value materially above recent prices.

The Portfolio lost over 1% from its precious metals investments during the year. These include Sandstorm Gold (ticker: SAND), Silver Wheaton (ticker: SLW), and a couple of miners we sold halfway through 2015. Gold and silver had another tough year, but we feel good about this element of our portfolio. Interest rates remain subdued around the world, with half of European sovereign debt selling at negative yields. In other words, you invest in a "safe" government bond and are assured to receive less money back in 5 years. We think the Federal Reserve will quickly abandon its rate increase plans once the fragility of the U.S. economy can no longer be plausibly denied by the unelected hypnotists at the Fed. Low interest rates, quantitative easing, government stupidity, and market mayhem should all be bullish for gold prices.

In 2015, the Portfolio made money on a few names too, such as Amdocs (ticker: DOX) and Bio-Rad (ticker: BIO), but we don't want to tout our victories in a year we'd characterize overall as poor. The Portfolio was stung by Corus and commodities. As we noted in the chart at the beginning of this letter, Traditional Value strategies performed poorly in 2015. Although we would never place ourselves in any bucket called "traditional," we are more aligned philosophically with a Traditional Value strategy than any others on the chart, like Price Momentum, Profit Trends, or Relative Value. Buying what was out of favor did not work last year, but the "dealin's not done" and we expect many of our biggest losers in 2015 to be our largest future contributors to the Portfolio's performance.

### Housecleaning

The Portfolio's top gainers in Q4 were Tetra Tech (ticker: TTEK), Cubic (ticker: CUB), and Ingram Micro (ticker: IM). Corus and Dundee had the largest negative impact on the Portfolio's fourth quarter performance. Our EZCORP 2.125% convertible bond holding had a much smaller negative effect on returns. Since we last updated you on EZCORP six months ago, the company has completed the restatement of its past financials. It also exited its payday lending business in the U.S., which may help reduce regulatory overhang. The company's Mexican payroll withholding subsidiary is struggling mightily compared to local peers, but the debt of that business is non-recourse to the parent. EZCORP's core pawn business is demonstrating improving trends, in spite of ongoing weakness in gold prices. While the company is not without problems, including poor corporate governance, we

We expect Dundee's management to take steps in 2016 to reduce the cash burn of its subsidiaries, starting with its underperforming broker dealer. Additionally, Dundee's investment portfolio includes a few lottery tickets, such as a privately held interest in TauRx, which is developing an Alzheimer's drug. Phase III clinical trials for TauRx's LMTX drug should be available next summer, and the company is planning a 2017 IPO. Dundee's ~5% stake in TauRx was carried at \$68 million (CAD) as of September 30, 2015. A recent *Wall Street Journal* article suggested that a TauRx IPO could value the drug company at \$15 billion (USD), presumably assuming the Phase III data is encouraging. We

<sup>3</sup> Ngui, Yantoultra. "Singapore Developer of Alzheimer's Drug Plans U.S. IPO." *Wall Street Journal*. (December 31, 2015).

believe that asset value more than covers liabilities. Both of the company's leading pawn shop competitors have healthy balance sheets, and we think they'd be very interested in EZCORP's store footprint in the U.S. and Mexico should it ever want to sell. Based on recent industry transaction prices for stores, EZCORP's enterprise value would be multiples of all recourse liabilities. The bonds are yielding 14%, so they are technically classified as a distressed security. We think they are far from it.

Over the past couple of years, we've been trapped in a Robert Frost nightmare. Two roads diverged in a yellow wood...The first path offered a "pyrrhic" victory, shiny on the surface but crowded and lacking sustainable underpinnings. The second, less trodden, trail promised a Pyrrhic victory, where the ultimate righteousness of positioning is threatened by the short-termism that plagues the investment industry. If you don't keep up with your benchmark, even if markets are acting irrationally, you lose business and credibility, at least for a while. We took the road less traveled by - holding high cash and owning out of favor stocks to help defend your capital while market conditions are extreme. We strongly believe *that* will make all the difference. Thank you for your investment.

### **DISCIPLINED VALUE PORTFOLIO – COMMENTARY BY GREG ESTES, PORTFOLIO MANAGER**

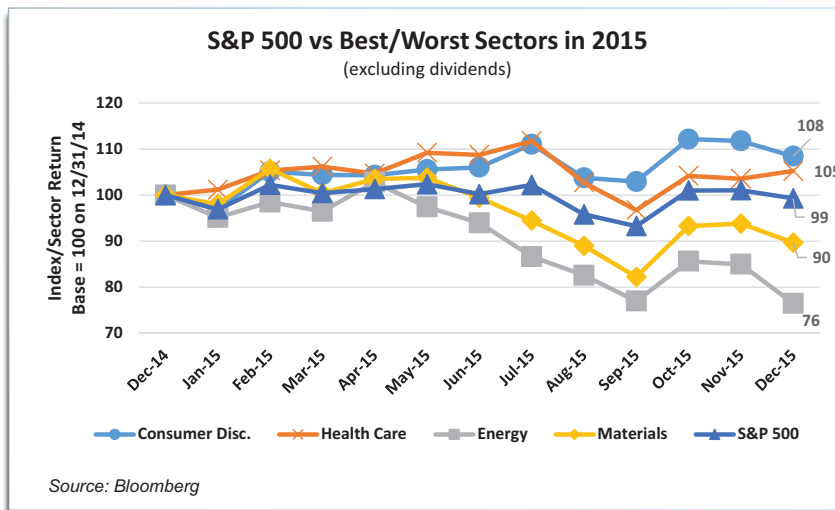
We think the best way to describe 2015 is the Year of Muddling Through. While much of the world is showing signs of a slowdown, the U.S. has for the most part avoided any clear indication of either a recession or a meaningful expansion. There was enough positive economic data, such as declining jobless claims and unemployment figures, for the Federal Reserve to raise rates for the first time since 2006. This was supposed to be a good sign, because it meant that the Fed had faith in the strength of the U.S. economy. The market even rallied a bit on the move, but it did not last. And yet businesses are not doing as well in general as many would like. Deutsche Bank estimates that total net income for S&P 500 Index members fell 3% for 2015, while revenue fell 4%.<sup>4</sup>

The low price of oil throughout 2015 was also supposed to provide a boost to the economy as consumers had more cash in their wallets.<sup>5</sup> But the energy sector had been booming in the U.S. before the collapse in oil prices and it was a source of employment and capital spending. As oil prices eroded, so did much of the payrolls and investment in capital equipment. Other commodities, such as copper and iron ore, have also fallen during the year. Weak demand is a factor for weak commodity prices as many businesses delay investment. In our opinion, this is not laying the groundwork for a good foundation for the coming year. Our note of caution probably looks repetitive to our readers. Unfortunately, as we have noted above, nothing has changed for the better to make us alter our outlook about the U.S. economy. Our cash level has remained fairly consistent throughout the year, and the Intrepid Disciplined Value Portfolio (the "Portfolio") ended the year with approximately 48% cash.

For 2015, the S&P 500 Index generated a return of 1.38% while the Russell 3000 returned 0.48%. In comparison, the Portfolio had a negative return of 3.43%, net-of-fees. What explains this underperformance? The short answer is that the Indexes, while showing a positive return across all index members, were actually quite mixed across the various sectors. As we conduct a review of the year, we can see that the two top performing sectors of the S&P 500 were Consumer Discretionary (up 10.11%) and Health Care (up 6.89%). On the bottom end were the Energy (down 21.12%) and Materials (down 8.38%) sectors. The graph below shows these four sectors, along with the S&P 500 Index, from the beginning to the end of the year, excluding dividends and indexed to start at 100.

<sup>4</sup> Hagerty, James and Francis, Theo. "Will Spending, Profits Resume Climb?" *Wall Street Journal* 4 January 2016

<sup>5</sup> Kent, Sarah, Williams, Selena, Miller, John, and Wall, Robert. "Cheap Oil Gives Little Help to U.S. Spending." *Wall Street Journal* 10 December 2015



Whereas the overall S&P 500 Index changed little during the year, the disparity between in and out-of-favor sectors grew wider as the year progressed.

On a sector level, the Portfolio's top contributor was from its Health Care holdings. However, our gain from Health Care investments was more than offset by our losses in the Energy and Materials sectors. In addition, although we had investments in the Consumer Discretionary sector, our individual selections within that group performed well below the broad index sector.

#### Past performance does not guarantee future results.

On an individual basis, our top performing stocks for 2015 were Microsoft (ticker MSFT, Information Technology sector), Quarto Group (ticker: QRT LN, Consumer Discretionary sector), and American Eagle Outfitters (ticker: AEO, Consumer Discretionary sector). Microsoft has seen a shift in its business model away from individual transactions based upon a consumer or business buying a single license for its operating system upon buying a new PC. Now, it is moving to a recurring subscription-based model in which a customer simply pays monthly or annually to use the operating system and the suite of Office software. In addition, the growth in MSFT's cloud-based offerings has highlighted this segment's importance to the company's future.

We've mentioned Quarto in our previous letter. This small, UK-based publisher has performed well during the year. One interesting new hot customer segment: coloring books for adults. Finally, American Eagle is a holding we sold earlier in the year as its quarterly results exceeded market expectations and the share price crossed above our intrinsic value estimate.

The bottom performers for 2015 include Corus Entertainment (ticker CJR/B, Consumer Discretionary sector), Teradata (ticker: TDC, Information Technology sector), and Contango Oil & Gas (ticker: MCF, Energy sector). Corus has posted some disappointing results in its advertising revenue, and that has caused much of the market's concern. However, we believe in the value of its original programming content as well as the future benefit it will gain from its new agreement to distribute Disney programming in Canada. For a more detailed account, please check the Intrepid Small Cap Portfolio's letter.

In the case of Teradata, not much changed from the last quarter: companies simply are not investing as much in data warehousing right now. As we mentioned above, many businesses are delaying all kinds of investments, and data warehousing is no exception. Although Teradata does rely on business spending, we continue to believe in the long-term necessity of this service for large businesses. Last but not least, Contango has been a victim of falling oil prices. Although it has a cleaner balance sheet than many other drillers, the perception of its higher production cost, combined with falling oil prices, have punished the stock.

For the fourth quarter, the Portfolio returned -1.88%, net-of-fees, versus the S&P 500 Index return of 7.04% and the Russell 3000's return of 6.27%.

We are constantly examining our holdings, paying particular attention to estimating what we believe each company is worth. By doing so, we believe we have a measuring stick to compare against each company's stock price. Those stocks that trade below what we think they are worth (intrinsic value) have what we refer to as a "discount." As we look at the Portfolio's holdings today, we believe that we have a mixed bag of securities. Some have performed well and have little discount left to our corresponding intrinsic values. Others, which have underperformed, have seen their discounts widen. The current average discount to our



intrinsic values within the Portfolio is approximately 20%. We are always looking for potential new investments, provided we can buy them for what we believe is an attractive discount to intrinsic value. We appreciate your confidence in our process and wish you a prosperous 2016.

### INCOME PORTFOLIO – COMMENTARY BY JASON LAZARUS, PORTFOLIO MANAGER

The high-yield market certainly ended 2015 with a bang. After six straight years of positive returns, which included bond yields reaching all-time lows, the high-yield market posted losses in each of the last three quarters. The asset class recorded its first annual decline since 2008, with the BofA/ML High Yield Master II Index falling 4.64% in the calendar year. While the drawdown was relatively mild, opening the hood reveals an extremely bifurcated market. As presented in the tables below, the riskiest securities measured by rating experienced significantly higher losses than higher-quality high-yield. Additionally, most of the weakness is attributable to commodity-related businesses. Investors who attempted to generate outsized returns by bottom feeding on the highest-yielding securities fared the worst, and several made financial headlines due to their misfortune. In an unprecedented move, the Third Avenue Focused Credit Fund blocked investor redemptions in December after sustaining losses even greater than the high-yield market experienced in 2008. Several other funds suffered similar losses.

2015 Index Returns by Rating	
<u>BofA / ML Index</u>	<u>Return</u>
BB	-1.04%
B	-5.00%
CCC	-15.02%
Distressed	-37.99%

2015 Index Returns by Sector	
<u>BofA / ML Index</u>	<u>Return</u>
Paper	-11.39%
Steel	-20.66%
Energy	-23.58%
Metals & Mining	-26.21%

As regular readers of our commentaries know, we have been pessimistic on the high-yield asset class for some time. In the midst of record low yields offered by high-yield bonds in 2014, we had extreme difficulty sourcing

attractive securities for the Intrepid Income Portfolio (the "Portfolio"). In response, we focused on higher-quality, shorter-maturity bonds and defaulted to cash when attractive investments could not be identified. This positioning proved beneficial in 2015. The Portfolio fell 1.29%, net-of-fees, in the fourth quarter of 2015, while the BofA/ML High Yield Master II Index slid 2.17%. The Barclays US Aggregate Index, which broadly represents the US investment grade bond market, lost 0.57% in the quarter. For the full calendar year, the Portfolio declined 1.12%, net-of-fees, while the High Yield Master II Index lost 4.64% and the Barclays Aggregate gained 0.55%. While we are never satisfied with negative returns, no matter how small the magnitude, we are pleased with how the Portfolio weathered a period in which some pockets of the high-yield market experienced huge losses.

The largest contributor to the Portfolio's performance in 2015 was Northern Oil & Gas 8% due 2020. Yes, you read that right – an energy bond was the top contributor in a year when independent high-yield energy bonds lost 36%, according to Barclays research. Clearly this issue was not held throughout the year, or we would have suffered a loss similar to the figure cited here. We exited our position in the bonds in the summer. We believed Northern's bonds held up a little too well in the face of crashing oil prices.

Another top contributor to the Portfolio's performance in 2015 was Ruby Tuesday 7.625% due 5/15/2020. While we wouldn't classify the company's operational performance as particularly strong, management was able to stabilize same store sales and improve operating margins while continuing to focus on debt reduction. It could be argued that Ruby Tuesday's bonds performed well in 2015 simply because they were undervalued at the beginning of the year. While we are comforted by the firm's significant real estate portfolio, Ruby Tuesday bonds have always been one of our riskier holdings. We took advantage of the strength in the bonds to reduce our position at prices above par.

Considering the pain experienced in certain portions of the high-yield market, namely oil and gas, mining, steel, and heavily leveraged businesses in general, it's worth reviewing the Portfolio's exposure and how we have navigated the environment. At the end of 2014, the Portfolio was invested in three companies that we believed were unique to the space: Northern Oil & Gas, Energy XXI (formerly EPL) and PetroQuest. We noted in our fourth quarter letter that we would likely not increase our

exposure to the sector beyond our current holdings. Additionally, we admitted that these positions would likely not work out if energy prices remained low for an extended period of time.

In this business it is important to recognize mistakes and evaluate the issues objectively. While we are still confident that the marginal cost to extract oil and gas is significantly higher than current energy prices, companies with large debt loads do not have time on their sides. Energy prices have stayed lower for much longer than we expected, and we became less confident that these companies' asset values could cover the obligations. Our investments in these firms essentially became long bets on higher oil prices, but with materially larger downside than one would be exposed to with a simple long position in oil or natural gas futures. As noted, we exited two of these positions at opportune times, and our sale of the EPL notes resulted in only a small loss for the year. We have maintained our exposure to energy indirectly through our ownership of two helicopter businesses that provide transportation to offshore oil and gas platforms. All of our energy positions outperformed the peer group in 2015.

Regarding metals and mining exposure, our single holding significantly outperformed the average bond in the sector in 2015. Our position in Alamos Gold 7.75% due 4/01/2020 was a positive contributor to the Portfolio's performance in the fiscal year and the fourth quarter. We purchased the bonds of the company formerly known as AuRico Gold several years ago when we bought the firm's convertible bonds. These bonds were called by the company and refinanced with a second lien bond (the 7.75% notes) that we believed was attractive. Several months after the issuance, AuRico merged with Alamos Gold. AuRico was legally the acquiring entity, but assumed the Alamos name. The transaction significantly enhanced the credit quality of our bonds as Alamos brought a huge cash balance to the transaction. The Alamos bonds provided a strong positive return in 2015 in stark contrast to the 26% loss experienced by the Metals and Mining Index, and the bonds were one of the Portfolio's top contributors.

We had less of the Portfolio's assets invested in the energy and mining sectors than the Index, and our holdings significantly outperformed the average bond in these sectors. The Portfolio's largest detractor was not even securities in the Index. One of our largest positions and highest conviction ideas is EZCORP 2.125% convertible bonds due 6/15/2019, which we have discussed in our past letters. The convertible bonds were the largest detractor in the calendar year, declining from around 90 cents on the dollar to below 70 cents. At the current yield of 14%, EZCORP's notes are technically distressed, defined as offering 1000 basis points or more above a comparable U.S. Treasury security. We believe EZCORP is far from distressed. The company made positive strides in 2015 to strengthen the business, including exiting the payday loan business entirely. We continue to believe that EZCORP's core pawn businesses in the U.S. and Mexico are worth significantly more than the firm's recourse liabilities.

The Income Portfolio had several of its holdings called by their issuers in the quarter ended December 31, 2015. Our positions in the bonds of Central Garden & Pet and SpartanNash (formerly Spartan Stores) were called. Intrepid had been a longtime lender to both companies, initially investing in Central's notes in 2007 and Spartan's in 2009. Additionally, our Scotts MiracleGro bonds were repurchased by the issuer. We also reduced our position in Ruby Tuesday 7.625% due 5/15/2020 and exited our holdings of Caleres 6.25% due 8/15/2023. The cash flow from these activities was partially offset by new purchases and additions to existing positions. However, as stated previously, most of the carnage in the high-yield market was limited to riskier credits that Intrepid does not typically target for inclusion into the portfolio. The better-capitalized, less-cyclical, cash flow generating businesses that we seek did not experience a large sell off in their debt instruments. As such, we continued to have difficulty finding attractive fixed income investments. We were, however, able to identify a few situations that we believe will offer attractive risk-adjusted returns, including Cash America 5.75% due 5/15/2018.

Cash America (ticker: CSH) is the largest operator of pawn shops in the United States, with over 800 locations in more than 20 states. The company's business has been under pressure from a number of distinct sources, including the decline in gold prices experienced over the last several years, regulatory pressures in payday loans, and weak core pawn demand as a result

of lower gas prices. Management has taken steps to shift the business toward a pure-play pawn model by closing standalone payday loan locations, discontinuing payday lending at pawn stores, and through the spin-off of its online lending business. Additionally, the headwind from lower gold prices is likely coming to an end. We believe Cash America's credit quality is very strong from both an operational and asset coverage perspective. The 5.75% notes constitute the vast majority of the firm's total debt, and we believe the yield is appealing for short maturity paper.

High-yield spreads have widened materially over the past several months, and many market prognosticators are proclaiming that high-yield bonds are very attractively priced. While we agree that there are more opportunities than we have seen in years, we do not believe the asset class is overly cheap in aggregate. The sell-off is mostly concentrated in the lowest-quality bonds and in commodity-related sectors. As always, we will continue to be very selective in choosing bonds for your portfolio, but we will not hesitate to deploy our cash if opportunities arise. Thank you for your investment, and we wish you a prosperous 2016.

### **INTERNATIONAL PORTFOLIO – COMMENTARY BY BEN FRANKLIN, PORTFOLIO MANAGER**

After a tough third quarter, the MSCI EAFE benchmark reversed course and climbed 4.71% in the fourth quarter. The Intrepid International Portfolio (the "Portfolio") zigged as the index zagged, registering a decline of 3.32%, net-of-fees. For the year, the benchmark declined 0.81% while the Portfolio fell 3.61%, net-of-fees. As mentioned in our first quarter letter, the Portfolio was impacted by being left unhedged at the beginning of the year due to waiting on paperwork to be finalized that allowed us to hedge. During that time period foreign currencies were falling rapidly, and we estimate the impact to the Portfolio was a loss of over 2%.

In Western Europe, speculators are betting that loose monetary policy will provide the same large, positive returns we have seen in the United States with our central bank experiment. These returns will likely be transient in our opinion, which will certainly be the case for those buying and holding to maturity the current two-year German Bund, which yields a *negative* 0.4%. That's right folks, you can invest one euro today for the promise of less than one euro in two years... get in line! It is easy to see why putrid returns in government bonds could cause speculators to search for yield in riskier securities, namely stocks. We believe this shift is causing security prices to become overheated. We have attempted to avoid many of these areas where we believe prices are too high. In the short run, these highly priced securities continue to inch higher, while the areas we have invested have not performed as well. In particular, resource-rich Canada underperformed in the most recent quarter due to the weakness in commodities, as well as blind selling for tax loss purposes.

Canada's national economy is heavily tied to resources, causing local stocks to move in tandem whether or not the underlying businesses are related to resources. Stocks tied to commodities deserve to move tangentially with the underlying resource, and in some cases, more so. However, the broad-based selling pressure in Canada at the end of the year appears to be due to more than the country's exposure. We took this time to add to some of our positions.

The negative return for the quarter was primarily driven by a few stocks that disproportionately impacted performance, coupled with winners that did not perform well enough to offset the weakness. Our two largest detractors during the quarter were Dundee (ticker: DC/A CN), and Corus Entertainment (ticker: CJR/B CN). Our two largest contributors during the quarter were Pacific Brands (ticker: PBG AU) and G.U.D. Holdings (ticker: GUD AU). The same detractors for the quarter impacted the calendar year, with the two combined contributing to a decline of about 7% in their local currency, and a decline of 6% when considering our currency hedges.

For several reasons, we are not troubled by our negative performance in the quarter. Firstly, one quarter is a very short time period; investing takes patience, and some stocks can take years to work out. Secondly, we took the weak performance in several of our stocks as a great opportunity to buy. We do not believe a fall in the price of a stock alone is enough to buy more. However, if the price of one of our holdings falls substantially while we believe the fundamentals have remained strong, we will likely take this as an opportunity to buy. Another example of a buying opportunity is when a stock's fundamentals

deteriorate but the stock price falls by more than our assessment of this decline in fundamentals. This latter example is what happened with our investment in Dundee.

We have discussed Dundee in past commentaries, and to summarize, it is a Canadian holding company with diversified investments, many of which are in the resource sector. Dundee's investments are in private and public companies, and the degree of ownership of each company varies from owning a small percentage of a firm, to joint ventures, to full ownership. The various interests cause the accounting for the holdings to differ between cost or market, equity method, and full consolidation. We'll spare the reader the accounting lesson but will note that the numerous holdings and accounting methods for each cause messy financial statements. We have thoroughly dissected the company's financials to understand the vast underlying holdings. When we first started looking at the company, it was trading at 0.6x book value. That book value has fallen; however, the stock price has fallen even further and now trades at less than 0.3x book value. One reason we believe this was occurring was related to year-end tax loss selling, which was exacerbated in a complicated company like Dundee where it would take other potential buyers considerable time to understand the underlying value due to the complicated structure described above. We have done our homework on this company over a long period of time, and took this opportunity to add to the position.

As the price of the Dundee common fell, we looked across their capital structure for other opportunities. The common equity is the lowest tranche in the company, and we were interested in potential opportunities in higher tranches we felt had less risk. The company also has a 5% preferred security that is puttable to the company in June of 2016. Due to the puttable nature of the security, it can be thought of as fixed income. The company is attempting to refinance the preferred with a new, similar security with a later put date in 2019 and an increased coupon of 6%. The new deal was dismissed by the market, and the holders of the 2016 preferreds began selling heavily. We were able to purchase the preferred at less than 75% of the par value. On January 6, 2016 the company announced improved terms for the new preferreds, including a dividend increase to 7.5% and warrants on the common, which sent the security up to over 90% of par.

There is uncertainty as to where the price of Dundee will go in the short run, and we know that human nature has us programmed to not accept this uncertainty. The safety of a rising stock price gives people comfort they are doing the right thing, and a falling one can have the opposite effect. These psychological factors can be powerful for even the most strong-willed of investors. While the stock was falling and we were buying, we were uncertain of where the price would go in the short run. We will likely never perfectly time the bottom; however, more important than these vicissitudes is whether our research is correct. In this area, we feel confident.

Since the end of the calendar year securities have been selling off. We are taking this time to continue to search for more undervalued investments. Most medium and large companies still require considerable weakness in their stock prices before we will find them attractive. Until that happens, we will be screening, searching, and drilling down into potential investments in the international small cap universe. Volatility is our friend. We welcome it, and we will do our best to use it to our advantage. Thank you for your investment.

**SELECT PORTFOLIO – COMMENTARY BY JAYME WIGGINS AND GREG ESTES, CO-PORTFOLIO MANAGERS**

For the three months ending December 31, 2015, the Intrepid Select Portfolio (the “Portfolio”) returned 0.63%, net-of-fees, compared to a 3.59% gain for the Russell 2000 and a 2.60% increase for the S&P Midcap 400 Index. Cash ended the quarter at 16% of Portfolio assets. This is temporarily above our target of 10% or less because of recent inflows.

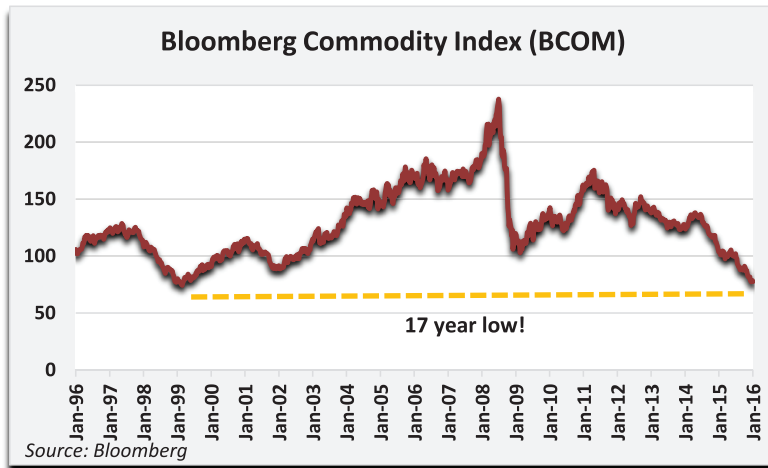
The Select Portfolio’s top three contributors in the fourth quarter were SanDisk (ticker: SNDK), Mattel (ticker: MAT), and Baldwin & Lyons (ticker: BWINB). SanDisk has benefitted from an announced buyout from Western Digital (ticker: WDC). From the perspective of the acquirer, this deal makes a lot of sense. Western Digital has more of a focus on hard disk drives (HDDs), which are older technology when compared to the solid state drives (SSDs) that are becoming more and more common. SanDisk is a leader in manufacturing flash chips, which are the building blocks for SSDs. Thus, by acquiring SanDisk, WDC is giving itself a way into a higher growth field, particularly in the Enterprise Storage market. Not only does it add the potential for more high growth products to WDC, but it also gives the company a manufacturing base for flash chips, since SanDisk is co-owner in a joint venture with Toshiba for several flash chip fabrication plants. Many flash storage makers rely on acquiring flash chips in the open market. SanDisk, however, has its own captive supply. The deal is a mostly cash and stock deal where SanDisk shareholders receive \$85.10 in cash and 0.0176 shares of WDC per share of SNDK. That implies a value of \$86.16 on a share of SNDK. However, SanDisk trades in the mid \$70s. Why the disparity? It boils down to investor uncertainty that the deal will close. First, the deal is expected to close by September 30, 2016. In that time, WDC must secure \$17 billion in loans. In addition, the terms as they exist now depend upon China’s state-owned Tsinghua Unisplendour taking an equity stake in Western Digital. That deal, in which Unisplendour will buy 15% of WDC, needs to close before the SanDisk acquisition. If it does not, then the deal for SNDK would be \$67.50 cash and 0.2387 per share, which translates into a value of about \$82 per share of SNDK. Any regulatory snags are more likely to happen with Unisplendour’s investment in Western Digital rather than WDC’s acquisition of SanDisk.

Mattel benefitted from a combination of two factors. First, the company has been beaten down over the past several years. Its flagship brand, Barbie, has been declared dead by many investors. The company has had major difficulty in clearing out inventory, and new shipments have been weak. The share price, which was once above \$45 in 2013, fell below \$25 in the spring of 2015, a five-year low. Second, there is a sense that management has finally corrected its inventory issues and has refreshed its product offering. Recent quarterly results point to a possible inflection point in shipments to retailers. This good news, in combination with a perceived low stock price, caused a bit of a boost to the stock in the quarter. In addition, management is adamant that they will protect their dividend, whose forward yield is above 5.5% as of the year-end price.

Baldwin & Lyons provides insurance coverage for trucking companies. The firm enjoyed solid underwriting growth and profitability in the latest quarter. Baldwin has reduced earnings volatility by exiting the property catastrophe reinsurance market. The stock offers a 4%+ dividend yield and trades for about 0.9x book value.

The Portfolio’s top detractors in the quarter were Dundee Corp. (ticker: DC/A CN), Corus Entertainment (ticker: CJR/B CN), and Leucadia (ticker: LUK). Dundee Corp.’s stock was drubbed in the second half of 2015. Dundee suffered through a perfect storm due to its Canadian domicile and commodity exposure. The Bloomberg Commodity Index is at its lowest level since 1999, reflecting bear markets in oil and gas, gold, agricultural products, and industrial metals. Dundee’s largest publicly traded investments declined in price in 2015, and several of the firm’s wholly owned subsidiaries delivered operating losses. Additionally, after Thanksgiving Dundee ran into friction regarding a proposed refinancing of one class of preference shares, which we effectively treat as debt. We think other investors may have been concerned that Dundee does not have sufficient liquidity to pay off the preference shares at their June 2016 maturity, in the event it cannot refinance them on suitable terms. We do not share these concerns, given the company’s unrestricted cash holdings, credit facility, and material liquid investment portfolio. Lastly, going into year end, we believe Dundee’s stock was impacted by tax loss selling, which could reverse in the New Year.





Past performance does not guarantee future results.

We expect Dundee's management to take steps in 2016 to reduce the cash burn of its subsidiaries, starting with its underperforming broker dealer. Additionally, Dundee's investment portfolio includes a few lottery tickets, including a privately held interest in TauRx, which is developing an Alzheimer's drug. Phase III clinical trials for TauRx's LMTX drug should be available next summer, and the company is planning a 2017 IPO. Dundee's ~5% stake in TauRx was carried at \$68 million (CAD) as of September 30, 2015. A recent *Wall Street Journal* article suggested that a TauRx IPO could value the drug company at \$15 billion (USD), presumably assuming the Phase III data is

encouraging. We have no insight into the outcome here and we are not assuming any upside for TauRx, but at the rumored theoretical valuation Dundee's investment would grow in value by more than 10x.<sup>6</sup> As of December 31, 2015, Dundee was trading for 27% of its \$1 billion book value. We have taken punitive haircuts to the carrying value of several of Dundee's anchor assets and still arrive at a book value materially above recent prices.

Leucadia has two challenges, and the company appeared to struggle with both during the quarter. Leucadia is the parent corporation for several companies. The two biggest challenges are National Beef, a market-leading beef processor and distributor, and Jefferies Group, an investment bank. In the case of National Beef, Leucadia has yet to show a turnaround in incredibly tight margins. The price of cattle, which is National Beef's input cost, is very high and has been for several years. High prices for raw materials squeeze margins, because there is a limit as to how much one can charge for processed beef. Prices have increased of course at the grocery store, but beef processors simply do not have the power to maintain their margins. Now, there could be some relief as the drought in the Western U.S. mitigates, which could lead to bigger cattle herds, but so far, we have not seen this occur. The second challenge is Jefferies, which suffered a significant blow to its fixed-income trading revenue, which was caused by "the prolonged anticipation of the lift-off in Federal Reserve rate-setting, the collapse in global energy markets where we have long been an active adviser, capital raiser and trader..." according to CEO Richard Handler. In addition, earlier this year Jefferies invested \$300 million into Swiss currency trading firm FXCM. This two-year senior secured loan, which also gives Jefferies an option to buy shares of FXCM, is marked to market. Because of the optionality, the loan's value can fluctuate depending upon the price of shares of FXCM. In the most recent quarter, the loan was marked down \$113 million. However, roughly \$100 million in principal has already been paid back.

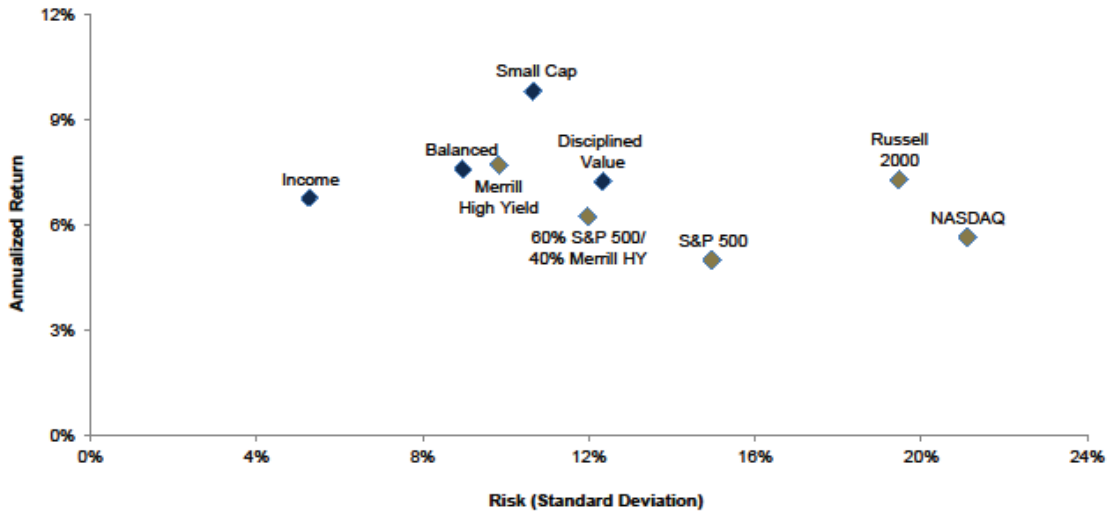
Corus is the Portfolio's largest position. Its stock dropped due to weak organic advertising revenues and concerns by some investors that Canada's new à la carte television rules will impair the company's business model. We expect advertising to heal in the next couple of quarters as Corus more effectively monetizes its solid ratings. We also do not expect a severe outcome when cable providers begin offering channels on an à la carte basis later this year. Corus's CEO has pledged that EBITDA will grow slightly in fiscal 2016. The dividend yield exceeds 10% and the stock is selling for less than 5x trailing free cash flow. There is no other television-based media stock on the continent that trades for anywhere near that multiple. For comparison, the median company in the Russell 2000 Index trades for 42x free cash flow. Thank you for your interest in our Portfolio.

<sup>6</sup> Ngui, Yantoultra. "Singapore Developer of Alzheimer's Drug Plans U.S. IPO." *Wall Street Journal*. (December 31, 2015).

# RISK ADJUSTED RETURNS

## TRAILING 15 YEAR RISK/RETURN

DECEMBER 31, 2000 TO DECEMBER 31, 2015

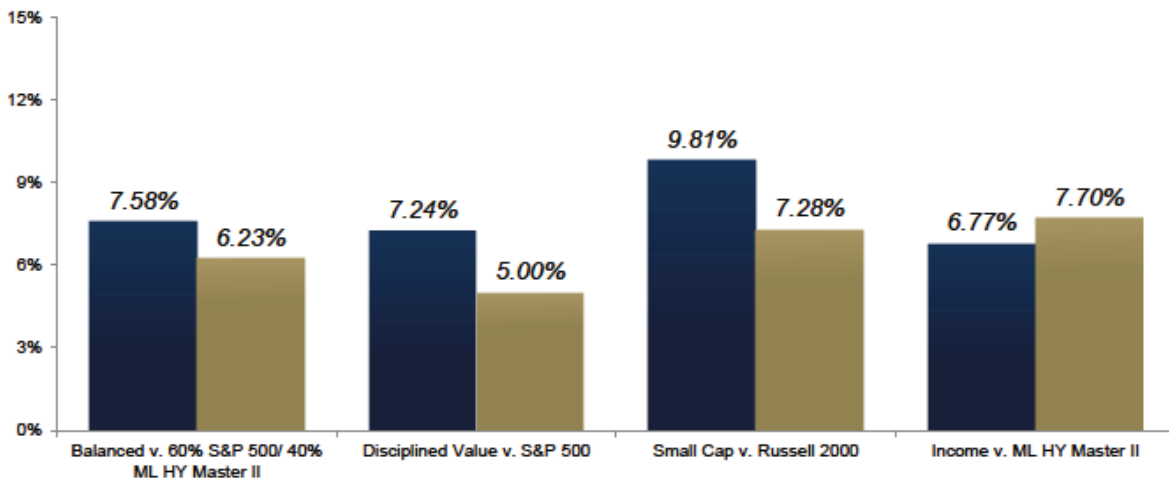


• Past performance is no guarantee of future results. Intrepid composite returns are presented net of investment advisory fees and all returns are presented annualized for the 15-year period ending December 31, 2015. Returns reflect the reinvestment of dividends and other earnings. The volatility of the listed benchmarks may differ materially from the volatility of any Intrepid composite. As of December 31, 2004, the firm changed its fixed income benchmark from the Salomon High Yield Short-Term Index to the Merrill Lynch High Yield Master II Index.

# ANNUALIZED PERFORMANCE

## TRAILING 15 YEAR RISK/RETURN

DECEMBER 31, 2000 TO DECEMBER 31, 2015



• Past performance is no guarantee of future results. Intrepid composite returns are presented net of investment advisory fees and all returns are presented annualized for the 15-year period ending December 31, 2015. Returns reflect the reinvestment of dividends and other earnings. The volatility of the listed benchmarks may differ materially from the volatility of any Intrepid composite. As of December 31, 2004, the firm changed its fixed income benchmark from the Salomon High Yield Short-Term Index to the Merrill Lynch High Yield Master II Index.