Intrepid Capital MANAGEMENT INC.

4Q 2016

Index Returns	
10/1/2016 to 12/31/2016	
Dow Jones:	8.62%
S&P 500:	3.82%
NASDAQ:	1.66%
Russell 2000:	8.83%
MSCI EAFE:	-0.71%

QUARTERLY COMMENTARY

January 2017

"In America, you can go on the air and kid the politicians and the politicians can go on the air and kid the people."

— Groucho Marx

Dear Friends and Clients,

About this time 20 years ago (December 1996), Alan Greenspan, then chairman of the Federal Reserve, uttered the words "irrational exuberance" in reference to what he saw as expensive market conditions. In hindsight, the market was still in the early stages of the tech bubble, and took a little over three more years (March of 2000 to be more exact) before correcting - a grinding affair that took equity indices down more than 50% over another three-year period (calendar years 2000-2002). I begin this letter with the Greenspan phrase and history because I think the increase of over 14% in the Russell 2000 Index since the surprise election of Donald Trump on November 8, 2016 may just be "irrational exuberance."

I could rationalize a higher price for a business **if** corporate tax rates were to drop from 35% to 15% **and** much of the recent regulatory burden were to be rolled back. But then again, if I were 6'3" and 220 pounds, I would have played in the NFL! All kidding aside, as most of you know by now, I am a libertarian free market capitalist and would love to see government represent a smaller percentage of the economy, but I believe prices were already high prior to the November election and they have continued to increase into 2017.

In order to justify a world of low market volatility (as evidenced by the CBOE Volatility Index (VIX) near historic lows), high equity prices (based on the S&P 500's P/E ratio greater than 22 on a trailing basis), rising U.S. interest rates (the 10-Year Treasury now yields around 2.4%, up from a low of 1.4% six months ago), and low high-yield bond spreads (425 basis points vs. 600 basis points historically), everything on Donald Trump's Christmas list to Santa needs to be delivered on time. I believe the road will get steeper for him after he is inaugurated on January 20th.

Department of Labor (DOL) Ruling and the Effect on Active vs. Passive Management

A recent decision that has roiled the asset management industry is the DOL's new fiduciary rule, which legally requires brokers and advisors to act in their clients' best interest when giving advice related to retirement plans governed by the Employee Retirement Income Security Act of 1974, known as ERISA (think IRA, profit sharing plan, 401(k), etc.). While its intention is good, like many government edicts, I believe this ruling will have unintended consequences as it takes effect. The fiduciary rule was published last April and doesn't take effect until this April, but because brokers and advisors will have a harder time justifying recommending products with high fees, the ongoing flight from actively managed to passively managed investment vehicles has only accelerated, which has benefited lower-cost index funds and Exchange-Traded Funds (ETFs). In its latest fund flows report for the month of November, Morningstar reported that $359 billion of assets have left actively managed funds over the last year, and most of those dollars have contributed to the $480 billion in net inflows to passive strategies over the same time period.[1]

1 http://corporate.morningstar.com/US/documents/AssetFlows/AssetFlowsDec2016.pdf; (Numbers in parenthesis and red font represent negative numbers.)

Passive-Fund Flows Continue to Dominate

Estimated Net Flows* $Mil	Active Nov 2016	Active 1 Year	Active Assets $Bil	Passive Nov 2016	Passive 1 Year	Passive Assets $Bil
U.S. Equity	(21,177)	(257,486)	3,569	41,911	217,157	2,883
Sector Equity	(5,461)	(31,187)	374	18,999	29,934	395
International Equity	(8,377)	(63,630)	1,436	7,845	64,889	887
Allocation	(6,595)	(60,167)	1,149	206	4,217	63
Taxable Bond	(11,569)	9,089	2,286	8,693	140,967	898
Municipal Bond	(10,223)	47,918	622	(239)	5,704	26
Alternative	(2,143)	(6,028)	166	(2,835)	3,289	46
Commodities	38	2,733	25	(3,977)	13,610	66
All Long Term	**(65,506)**	**(358,804)**	**9,627**	**70,603**	**479,768**	**5,264**
Money Market	66,026	(6,565)	2,688			

*Includes liquidated and merged funds.

Source: Morningstar Direct Asset Flows.

On the surface, all else being equal, cheaper is better. But from my perspective, few investors actually pay just the reported fee of a passive fund, because few no-load funds are bought directly from the manager. Most are likely purchased through an intermediary (a broker or advisor) who charges their own fees. This immediately reduces the savings from using low-fee funds; once advisory fees are included, an index fund charging 10-20 basis points may cost the holder as much as 100 to 150 basis points per year. In addition, poor timing can ding the returns of passive portfolios even more than fees and taxes if the investor and/or advisor don't have the emotional discipline to sit still during volatile markets. As you've heard me say before, when the market is exhibiting low volatility and moving up, it appears almost free and easy to implement an index strategy. It is neither.

My fear for the public is two-fold. First, out of concern to be compliant with the new DOL ruling, many financial intermediaries feel compelled to sell "mom and pop" an index or ETF in their IRA accounts, which could be terrible timing since we are at all-time highs in the market. Keep in mind that equity indexes fell about 50% peak-to-trough in 2000-2002 (tech bubble) and in 2007-2009 (housing crash). Second, the number of fund share classes available to smaller investors, which tend to have higher expense ratios and are thus subject to greater scrutiny under the new rule, is likely to contract, potentially cutting off those with $250,000 or less of investable retirement assets from access to entire swaths of the investment industry.

I truly wish there was a "free lunch," as I would certainly partake of it and deliver it to you; our clients and shareholders. Thankfully, due to your unwavering support, the industrywide exodus from active managers was not a detriment to our business this year, as we had net inflows for 2016!

Most of this industry shift, in my opinion, is from what I consider "high-cost passive" to "low-cost passive." What I mean is that unfortunately, many in our industry are content to paraphrase John Meynard Keynes: *"Worldly wisdom teaches that it is better to fail conventionally than to succeed unconventionally."* They do this by marketing themselves as active managers, while very closely aligning their portfolio with the index they are benchmarked against.

At Intrepid Capital, we could not be more different. Most of our holdings are not in an index we happen to be benchmarked against. This suits us just fine! In fact, we have been cited in prominent financial publications for having high "active share," which measures the amount of overlap between a fund's holdings and those of its benchmark.[2] This is an academic response to the question, "Am I getting what I am paying for?" Our strategies have active share metrics between 97.5% and 99.9%.

In the heady equity environment that we have been in for at least the last five years (I hate to keep bringing this up), you might want to consider how much risk you are taking as we start 2017. Unfortunately, I have found that investors only consider risk when they are doing a post-mortem on an investment that falls into the category I politely call "seemed like a good idea at the time!"

For me, as one of your portfolio managers at Intrepid Capital, I am on the constant lookout for what we consider good businesses at good prices, and bonds with relatively short maturity, generally less than 5 years, that offer a compelling yield

2 Light, Joe. "And the Next Star Fund Manager is…" *Wall Street Journal.* January 17, 2014.

over and above the comparable maturity Treasury note. These companies should also have the free cash flow, or assets, to help repay the bonds at maturity. The cash levels in the Intrepid Capital portfolios are indicative of how many qualifying equity or debt securities we can find. In other words: cash high, prices high; cash low, prices low.

We also attempt to mitigate risk for the overall portfolio in several ways. First, position sizes are carefully managed. Second, the financial leverage and the potential volatility of the respective companies' cash flows are taken into consideration. Third, we try to obtain the best interest rate spread possible with the fixed income portion. Simply, can we earn better than "risk-free" interest rates, such as Treasury bills, by lending to a creditworthy business over a short period of time?

Sharpe Ratio

One of the industry standard financial risk management tools is called the "Sharpe Ratio". Dr. William Sharpe was granted a Nobel prize for his work in this area. The Sharpe Ratio is a measure for calculating risk-adjusted return. More technically defined, it is the average return earned in excess of the risk-free rate, per unit of volatility or total risk. This is all very logical to me, particularly when I meet someone in public crowing about their 25% returns on ______ (fill in the blank - stocks, ETFs, land speculation, private equity). Often, due to the tremendous leverage, lack of liquidity and other inherent risks, my retort is often, "25% should be the minimum return you expect given the risks you just incurred!"

	Sharpe Ratio
Intrepid Balanced	0.64
S&P 500 Index	0.49

As shown in the table to the right, the Sharpe Ratio for the Intrepid Balanced Portfolio (the "Portfolio") is 0.64 compared to the S&P 500 Index of 0.49 for the period of January 3, 2005 to December 31, 2016. Using this risk-adjusted return measure, I am pleased to say the Intrepid Balanced Portfolio has a more attractive risk/return profile than the most commonly followed equity index, the S&P 500 Index. For the period ending December 31, 2016, the Portfolio increased 2.51%, net-of-fees, for the quarter and 15.33%, net-of-fees, for the year, compared with the S&P 500 Index, which returned 3.82% and 11.96%, respectively.

The Portfolio ended the quarter with 19.1% in cash. The Portfolio's five largest contributors during the quarter were Tetra Tech (ticker: TTEK), Leucadia National (ticker: LUK), Patterson-UTI Energy (ticker: PTEN), Berkshire Hathaway CL B (ticker: BRK.B), and Western Digital (ticker: WDC). The Fund's five largest detractors for the quarter were Teradata (ticker: TDC), Royal Mail PLC (ticker: RMG), Oaktree Capital (ticker: OAK), Dundee Corp. (ticker: DC/A CN), and METKA Industrial (ticker: METTK GA).

Thank you for entrusting us with your hard earned capital; it is not a position we take lightly. If there is anything we can do to serve you better, please don't hesitate to call.

Best regards,

Mark F. Travis

Mark F. Travis

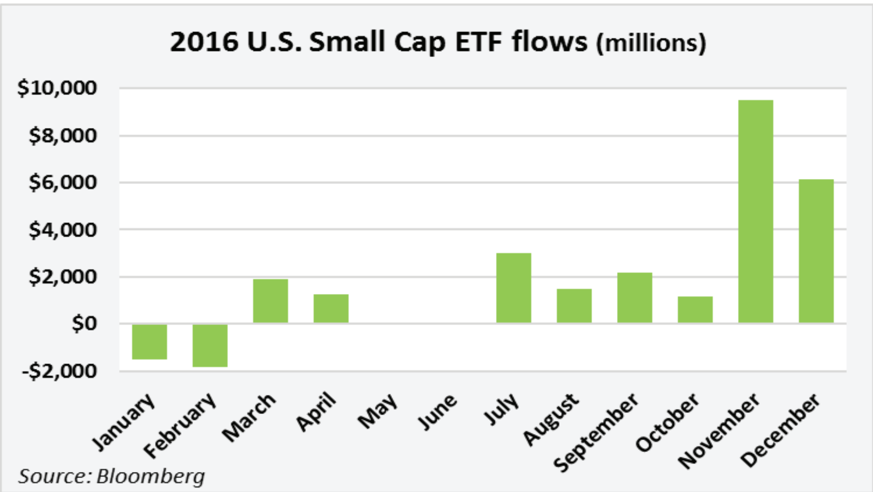
President/CEO

SMALL CAP PORTFOLIO – COMMENTARY BY JAYME WIGGINS, CFA, CIO, PORTFOLIO MANAGER

We feel like we're stuck in a New Year's Eve version of *Groundhog Day*—empty champagne bottles may be sitting in recycle bins, but when we wake up each morning everything *is still bubbly.* The small cap market's surge since the election has been breathtaking. The Small Cap Portfolio's (the "Portfolio") gains over this time period have been minimal. We owe you an explanation.

Prior to Election Day, the collective wisdom of Wall Street was that an unlikely Trump victory would spark a major selloff due to the unpredictable nature of this unusual candidate. The wave of selling after initial results were reported quickly reversed. U.S. stock indexes ended higher the next day and haven't looked back. In the blink of an eye, the market's narrative changed from "Trump is terrible for stocks" to "Trump is awesome for stocks." It makes you wonder if there was any scenario where the stock market wouldn't have gone up!

Since the election, investors have been ecstatic about the prospects for U.S. small cap stocks in light of pledges of an "America First" economic policy. Money has flooded into small cap ETFs, helping propel shares higher.



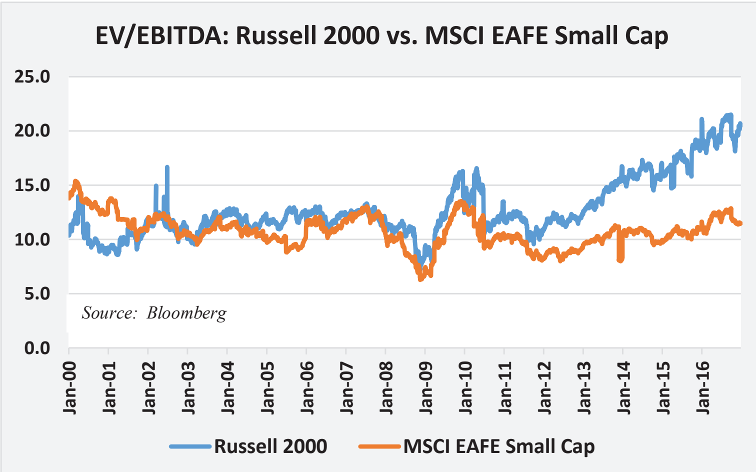
Investors have fully embraced the idea that the trifecta of lower taxes, more spending, and less regulation will disproportionately benefit smaller companies. That may be true. In addition, the U.S. dollar's continued strength will weigh on the translated earnings of larger cap firms with a higher percentage of foreign revenue, which theoretically makes the relative earnings outlook better for small caps. We have a more measured view of the impact of recent proposals:

- *Lower corporate taxes would be great for many small businesses, but if there is no offsetting reduction in government spending, it will raise the deficit.* Corporate income taxes account for 11% of federal revenues (~$350 billion). President-elect Trump wants to reduce the corporate tax rate from 35% to 15%. House Republicans target a 20% rate. Fabulous, but will we pay for it by slashing government expenditures? Unlikely. Government debt now exceeds 100% of GDP. Interest rates are rising. Our country can no longer afford runaway deficits.
- *The proposed $1 trillion infrastructure spending plan would increase the government's red ink.* Government stimulus spending might boost GDP in the short-run, but the long-run benefits are specious. The prior stimulus program was widely panned. Governments are historically terrible allocators of capital.
- *Reducing regulatory burdens on U.S. businesses is unambiguously good policy, in our opinion.* The economic benefits are certainly positive but difficult for us to quantify. Free markets don't need government regulation, since bad actors are eventually exposed.
- *Beware of trade wars.* Although there are noble intentions behind the new administration's protectionist posture — to protect. American jobs and shrink the trade deficit—there is no free lunch. A reduction in trade may benefit workers in certain industries but ultimately limits improvements in the nation's standard of living, as citizens end up paying more for goods and services. Many people have come to accept the concept of comparative advantage

as it relates to things like t-shirts, but apparently not air conditioners and automobiles, which are receiving most of the media attention today.

- *Border tax adjustments could negatively impact U.S. companies that import goods and services but have minimal overseas revenue.* In general, small caps are less export-focused than large caps. Congress has discussed shifting to a destination-based tax scheme to put U.S. exporters on a more level playing field with countries that have Value Added Taxes. Imports would be subject to border taxes but exports would be exempt. Many economists believe the upward pricing pressure resulting from a tax on imports would be offset by a strengthening of the U.S. dollar, which would negatively affect exports and possibly unwind the primary intended purpose of the tax. However, border taxes would also raise revenue to help pay for tax rate reductions.
- *Nothing is a done deal, yet investors seem to be assigning a high probability to each proposal being implemented with favorable outcomes.* President-elect Trump continues to tout huge tax cuts and stimulus spending in his recent speeches. These promises have been echoed by his Treasury Secretary pick Steve Mnuchin. Mnuchin has also remarked that Fed Chair Janet Yellen *"has done a good job,"* which would seem to place him comfortably among Wall Street types and politicians who act to achieve short-term goals even if they inflict long-term damage. On the other hand, Trump nominated Rep. Mick Mulvaney to be director of the Office of Management and Budget. Rep. Mulvaney is fiscally conservative, likes gold, and is passionate about balancing the federal budget. On December 12th, Senate Majority Leader Mitch McConnell cited the dangerous level of national debt and said, *"What I hope we will clearly avoid, and I'm confident we will, is a trillion-dollar stimulus."* It could be an interesting tug of war in the Capitol.
- *Nearly one-third of Russell 2000 members are losing money, so they would not currently benefit from lower income tax rates.*
- *Eliminating the tax deductibility of interest could counteract the benefit of lower tax rates for many companies.* The House GOP tax plan would remove the ability for businesses to deduct interest expense, which should make leverage less attractive to Corporate America. Based on our analysis, around one-fifth of *profitable* Russell 2000 companies would be worse off if tax rates were lowered to 20% but interest deductibility were eliminated. Permitting the immediate expensing of capital expenditures would lower near-term cash taxes for many firms and could help mitigate the cash flow impact of eliminating interest deductibility.
- *Higher interest rates would increase borrowing costs for indebted companies.* LIBOR, the reference rate for many corporate loans, increased over 2016. Russell 2000 members collectively have $1.18 trillion in debt. A one percent increase in the interest rate on this debt equals $11.8 billion. Over the trailing twelve months, aggregate net income of the entire index was $1 billion, while the total market cap was $2.29 trillion. The one-third of unprofitable companies in the index produced $75 billion in losses that nearly eclipse $76 billion in earnings from the two-thirds of profitable enterprises.
- *Banks may not benefit as much as anticipated under the new administration.* Small cap bank stocks have surged since the election, partly due to the positive impact of higher interest rates on net interest margins. Morgan Stanley estimates bank earnings could fall 3% if tax rates are cut to 20% and interest deductions are simultaneously eliminated. Higher interest rates are likely to reduce housing-related banking activity and could increase the bad debt rate for commercial real estate loans that comprise a meaningful portion of banks' portfolios.

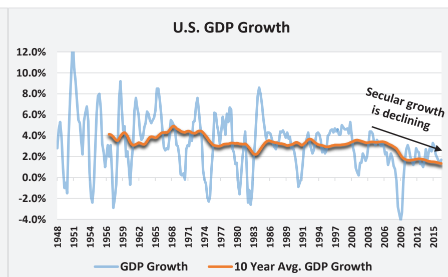
We estimate that half of all companies in the Russell 2000 Index would see no benefit or would post lower earnings if corporate tax rates were reduced and interest deductions were disallowed. On the other hand, for Russell 2000 firms that make money, these proposals could contribute as much as 15% to their collective net income, based on our analysis. We have to ask, at what point is it priced in? The chart to the left shows the EV/EBITDA multiple of the Russell 2000 compared to the MSCI EAFE Small Cap Index. While the global benchmark's valuation appears to be near typical levels, the Russell 2000 multiple is nearly 2x historical averages.



Source: Bloomberg

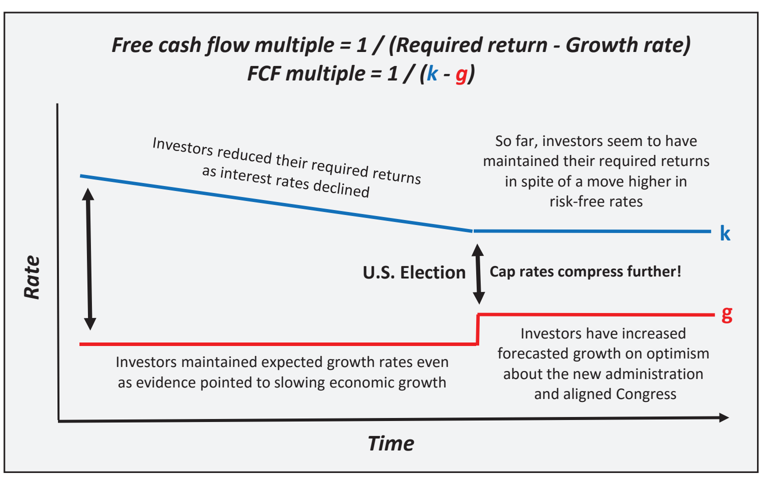
Interest rates are rising on expectations that the new administration's policies will promote faster economic growth and increasing inflation. In the past 8 weeks, yields on 10 year U.S. Treasury bonds are up 65 basis points. Many would argue that a primary reason that small cap valuation multiples have doubled since 2011 is because depressed interest rates left few alternatives for investors.

Source: Bloomberg



Source: Bloomberg

In other words, for years investors have been reducing their required returns (discount rates) but seemingly haven't altered their growth expectations, even as U.S. GDP growth has stagnated. Post-election, investors are now forecasting stronger growth ahead but are not adjusting their required returns up to reflect higher interest rates.[3] This would not occur if investors were acting consistently, since there are two sides to every coin. As a result, we've seen a continued compression in capitalization rates and expansion in trading multiples.



At Intrepid Capital, we have not reduced our required returns in recent years, which is the principal reason for our burgeoning cash. It never made sense to us to lower our standards based on artificial changes in the risk-free rate, especially since we have felt investment risks are increasing. For more discussion on this subject, please see our Q315 letter to shareholders (http://www.intrepidcapitalfunds.com/media/3Q16_Market_Letter.pdf).

The Portfolio

The Russell 2000 soared 13.84% since the election. Foreign small caps are generally higher over the same period, but with more muted gains. Japan's TOPIX Small Index increased by 10.02% as the dollar's appreciation against the yen is expected to benefit export-oriented Japanese corporations. In contrast, China's CSI Smallcap 500 Index was down 3.68% over that span due to concerns that changes in U.S. trade policy will negatively

3 Alternatively, they are increasing the risk-free rate but are reducing the equity risk premium. We think either choice is aggressive.

affect China. Large caps, as represented by the S&P 500, increased 4.98% from November 8th through the end of the year. U.S. regional banks saw some of the strongest gains, up 27.11% Lastly, the worst-performing basket of stocks since the U.S. election may be the MVIS Global Junior Gold Miners Index, which was off 14.77% through December 31st.

Total Return: 11/8/16-12/31/16

KBW Regional Bank Index	27.11%
Russell 2000	13.84%
Japan TOPIX Small Index	10.02%
S&P 500	4.98%
China CSI Smallcap 500	-3.68%
MVIS Global Junior Gold Miners Index	-14.77%

In terms of relative performance, the Intrepid Small Cap Portfolio started 2016 with a bang and ended with a whimper. The Portfolio's absolute return was created by a slow and steady climb higher over the first seven months of the year, after which we flatlined. The Portfolio returned 8.30%, net-of-fees, in 2016 compared to a 21.31% gain for the Russell 2000 Index. The securities we owned performed well in 2016. Our common equity, preferred stock, and convertible bond holdings collectively rose over 35%, although the performance was front-end loaded. During the fourth quarter, the Portfolio fell 0.34%, net-of-fees, while the Russell surged 8.83%. We did not participate in the small cap market's post-election euphoria because of our cash position, now at 79.0% of Portfolio assets, as well as our avoidance of most stocks in the Russell 2000 Index. Less than 30% of the Portfolio's *invested* assets belong to the Russell 2000 Index. Besides our limited exposure to Russell 2000 stocks, the Small Cap Portfolio's holdings include stocks with slightly larger capitalizations (e.g. Amdocs, Bio-Rad), foreign securities (e.g. Corus Entertainment, Dundee Corp.), investments in precious metals and gems (e.g. iShares Gold ETF, Dominion Diamond), and convertible bonds (e.g. Primero Mining, EZCORP). In general, the performance of these groups of securities fell far short of U.S. small caps in the quarter. During the quarter, we used the majority of the Portfolio's cash to purchase Treasury bills, which have recently seen yields perk up on expectations of rising rates.

For all of 2016, the Portfolio's top three gainers were EZCORP 2.125% convertible notes (CUSIP: 302301AB2), Silver Wheaton (ticker: SLW), and Sandstorm Gold (ticker: SAND). The Portfolio's largest contributors for the fourth quarter were Tetra Tech (ticker: TTEK), Corus Entertainment (ticker: CJR/B CN), and Bio-Rad (ticker: BIO). Tetra Tech, a leading supplier of water-related consulting and engineering services, has rallied on hopes of renewed infrastructure spending. The firm's operating margins are also approaching record levels, as management works to integrate a recent acquisition. We sold most of our Tetra Tech position, since the valuation looks full.

Corus Entertainment experienced sequential improvement across its business in the latest quarter. Advertising on the company's legacy networks increased year-over-year, and subscriber fees were up 10%. Nevertheless, advertising on the acquired Shaw networks still declined noticeably, which was blamed on the Olympics airing on competing networks and tough comps due to election spending in the prior year. Management predicted that Corus's advertising revenue trends would improve starting in calendar 2017, since most of the company's ad agency deals renew on January 1st.

Bio-Rad reported its strongest constant-currency sales growth in years during Q4. The firm's Life Sciences segment experienced particularly strong revenue growth from newer technologies. Bio-Rad's Clinical Diagnostics division had solid performances from diabetes, immunology, and quality control product lines. We believe Bio-Rad's earnings power has been obscured for several years by heavy spending tied to an ERP implementation and early stage technology investments. Additionally, the company's Sartorius (ticker: SRT3 GY) equity stake represents a valuable asset many investors may overlook. With that said, the stock has had a good run and appears to largely price in the higher margins expected once the ERP system is finalized. We reduced our weighting.

Our two largest losers this quarter and for the entire year were precious metals positions, Primero Mining's convertible bonds (CUSIP: 74164WAB2) and the iShares Gold ETF (ticker: IAU). In our letter to you last quarter, we commented on our profitable sales of Silver Wheaton and Sandstorm Gold and rotation into the iShares Gold ETF and Primero convertible bond, stating that they were lower beta investments than the streaming firms, *"which could prove useful if there is a temporary dip in precious metals prices."* We were half right.

Gold prices are down 9% since the U.S. election and are off 15% from the summer highs. Gold is being negatively impacted by rising interest rates and the strong dollar. After selling our streaming companies last quarter, we wanted to maintain some precious metals exposure in light of irresponsible behavior by central banks around the world. We welcome higher interest rates, and the inertia right now is for the Fed to continue hiking gradually. Nevertheless, we believe the Fed will eventually cut rates again before any *real* economic strength takes hold, and at that point investors will realize we cannot extricate ourselves from low rate-dependency without incurring pain. We expect gold to react favorably.

Our Gold ETF investment declined much less than the streaming positions we sold, so in a way it did its job, although the Portfolio obviously would have been better off in Q3 with zero gold exposure. Our Primero Mining convertible bond position did not hold up as well as we expected. While the notes were pressured by falling gold prices, Primero's third quarter earnings suffered from ongoing labor issues at its San Dimas Mine in Mexico. We thought the labor problems had been resolved, since the company made a significant bonus payment to the mine workers in July. It turns out many of them, newly flush with cash, decided to not show up to work. The San Dimas Mine is located in a remote, mountainous area near the town of Tayoltita. The town of 8,000 would not exist without the mine, which employs 1,596. Historically San Dimas has been a low-cost operation, with average all-in sustaining costs of $774 per gold ounce from 2011-2015. Labor issues and other one-off problems have materially inflated costs in 2016. We expect union members to eventually come to their senses, since there are few opportunities for employment in Tayoltita. The depreciating Mexican peso should help mitigate some of the impact of lower gold prices on Primero's results.

Primero's credit facility expires in May, and management has warned that the company does not currently have enough cash to repay the bank revolver, should it not be renewed by lenders. As of the last report, Primero had borrowed $49 million from the facility, while the company's cash was $31 million. Primero is in discussions with banks to extend the facility. Management is exploring options to improve liquidity, such as marketing for sale Primero's Cerro de Gallo project in Mexico. Although it wouldn't be fun, the company may also be able to issue equity again. Lastly, if things get really bad for Primero, we think they could receive a bailout of sorts from their streaming partner Silver Wheaton. Besides Primero, Silver Wheaton has the most to lose from San Dimas shutting down. San Dimas accounted for 16% of Silver Wheaton's total production during 2015, and Silver Wheaton has received about $80 million of cash flow per year from the stream. We believe Silver Wheaton would relax the terms of its stream with Primero to help the firm avoid distress or possibly as part of an acquisition of Primero by a larger gold company.

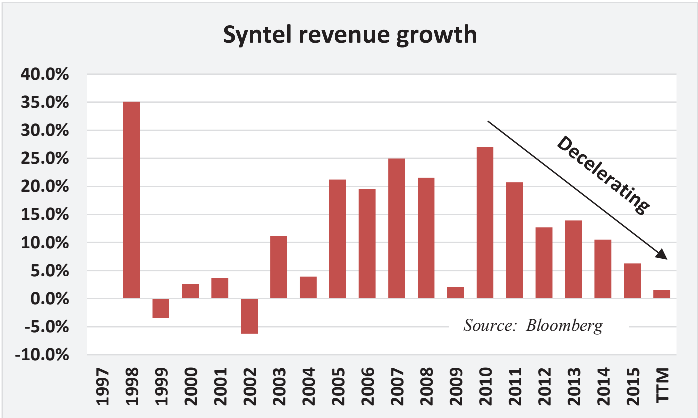
In the event Primero is not able to renew its credit facility and is forced to restructure, we believe convertible bondholders like us would either end up owning the equity of the company or would be paid off in full after another miner acquired the firm. Bondholder recoveries would hinge on whether Primero's streaming partners attempt to reassert their streams or participate as large senior secured creditors in a restructuring. Currently, there is only $49 million in bank debt ahead of convert owners, and Primero's enterprise value is approximately $250 million. We believe the $75 million in par value ($45 million market value) of bonds is covered under most scenarios. The worst outcome for Primero would be one of further declines in gold prices, an inability to come to reasonable terms on taxes with the Mexican government, and ongoing labor problems. At a price of 60 the bonds are yielding 24.8%. We think we are being adequately compensated for Primero's risks.

Dundee Corp. (ticker: DC/A CN) also qualified as a top detractor in the quarter. The holding company has recently announced a few positive developments, including its SPAC (Special Purpose Acquisition Company) making a qualifying acquisition and third parties contributing capital to a couple of the company's businesses. Most of Dundee's consolidated subsidiaries posted reduced losses from the prior year, but overhead costs are still depleting the firm's book value each quarter. When we originally purchased Dundee a couple of years ago, some of the company's public equity investments paid large dividends that helped finance overhead. Those investments were subsequently sold, and the proceeds were invested into a large energy project shortly before the collapse in oil prices. As a result, Dundee has experienced a diminution in its Net Asset Value because of cash burn and as a result of the general downturn in commodities. Management has been taking steps to streamline Dundee's portfolio and minimize the cash drain. There are catalysts on the horizon that could improve the firm's cash flow, including the

2017 opening of the Parq Resort in Vancouver. We think the stock trades at a wide discount to asset value. Yet, we admit that we've been owning a melting ice cube and should have reassessed the investment when the prior CEO sold cash-flowing liquid investments in order to fund a more speculative energy venture.

Besides T-Bills, the Portfolio purchased one new security during the quarter, Syntel (ticker: SYNT). Syntel provides IT outsourcing primarily to U.S. companies by utilizing a large Indian workforce. Your reaction might be that this is a risky trade in light of the president-elect's rhetoric on outsourcing, since Syntel's fortunes depend on using foreign workers to perform services more cheaply than Americans. However, unlike in the American manufacturing sector, it is not difficult for U.S. citizens with technology backgrounds to find high-paying jobs today. While possible changes to U.S. H-1B visa rules for India-based outsourcers could raise costs, we believe the industry has ways to mitigate the impact from adverse legislation and think investor concerns over this issue are already partly reflected in Syntel's share price.

Syntel has a concentrated customer base, with its top 3 clients accounting for 48% of revenue. After many years of rapid growth, Syntel has recently seen its quarterly revenue decline for the first time in over a decade. Syntel's top line performance over the past year has been worse than its larger competitors, leading some to conclude that the company is not as well positioned to address the evolving technology needs of customers, encompassing investments in social media, mobile, analytics, and cloud offerings.



While Syntel should continue to develop newer "digital" offerings, the company's percentage of revenue from digital activities already appears to be in-line with most peers that advertise this metric. Also, Syntel has industry-leading margins, so it is operating from a position of strength. The company should be able to accelerate revenue growth back to the industry trend line with additional investments and once spending revives for North American Financial Services and Healthcare customers. These are the largest industry verticals served by the firm, but spending trends have been softer than in other sectors where competitors have more exposure. The company's customer concentration introduces risk, but Syntel's top clients have been stable for over a decade and Syntel is deeply embedded in their operations. The stock is trading for 8x normalized operating profit and less than 10x expected free cash flow. Syntel's peers currently trade for an average forward EV/EBIT multiple exceeding 12x (14x trailing). Insiders have recently purchased more stock on the open market than at any point in Syntel's history.

We effectively exited our position in Cubic (ticker: CUB) during Q4, after the stock traded past our valuation. In October, Cubic preannounced that earnings would fall far short of its previous outlook due to delays in defense orders, which management expects to recapture in the future. The stock got rocked, and then it regained all lost ground. Five weeks later, Cubic officially announced results and set EBITDA guidance for fiscal 2017 that was well below expectations. The stock dropped again, but it subsequently recovered, possibly due to enthusiasm around the prospects for defense companies under the new administration. Cubic's shares may also be advancing on optimism from management that the company will win the upcoming New York City fare collection contract, where Cubic is the incumbent. We admire Cubic's strong competitive position on the transportation side. However, we believe the stock is already pricing in the NYC win. Cubic's executives lack credibility with profitability projections, and their acquisitions over the past year have not created value, in our opinion. We took advantage of strong market tailwinds to sell our position at a solid gain.

The Small Cap Portfolio was outperforming its benchmark for most of 2016, but that lead quickly evaporated after the election. Here we sit again, at the back of the pack. Our Portfolio may appear to be at DEFCON 1, but we're optimistic about our prospects. We've been through this before. We believe our positioning is completely rational in what we view as the tail end of a small cap bubble. Those with opposing views mainly defend their stances with popular mantras like "small caps grow faster" and "small companies will benefit more from tax relief" that even when true are rarely paired with a dispassionate assessment of what's already priced in to stocks. The valuation evidence is hard to dispute.

Back to *Groundhog Day.* Once Bill Murray's character realizes he's stuck in a time loop, he begins to act recklessly, with hedonism, armed robbery, suicide, etc. If you wake up every morning thinking there's no downside, you can "experiment" and maximize pleasure. How many investors have had a similar cavalier attitude towards the stock market? Don't Fight the Fed, The Bernanke Put, The Yellen Put, Trumpflation, Buy the Dip, The Santa Claus Rally—there's a mantra for every season, because the market always has your back. Spoiler alert: the cycle eventually ends. Bill Murray endured despair and serious soul-searching, but *Groundhog Day* had a happy ending.

We wish you a prosperous New Year. Thank you for your investment.

DISCIPLINED VALUE PORTFOLIO – COMMENTARY BY GREG ESTES, CFA, PORTFOLIO MANAGER

The first thing we read in the paper this morning was an article entitled, "Earnings, Not Donald Trump, Are Stocks' Best Friend in 2017."[4] The primary thrust of the article is that the streak of earnings declines for five straight quarters has halted. The long national nightmare is finally over. The third quarter of 2016 had earnings growth of 3.1% for S&P 500 companies. Our thoughts - somewhat sarcastic - were, "Whew…bullet dodged!" The tepid stock performance of 2015 and early 2016 were mentioned. However, the two-year annualized return for the S&P 500 Index was 5.97% - not too shabby for an earnings recession.

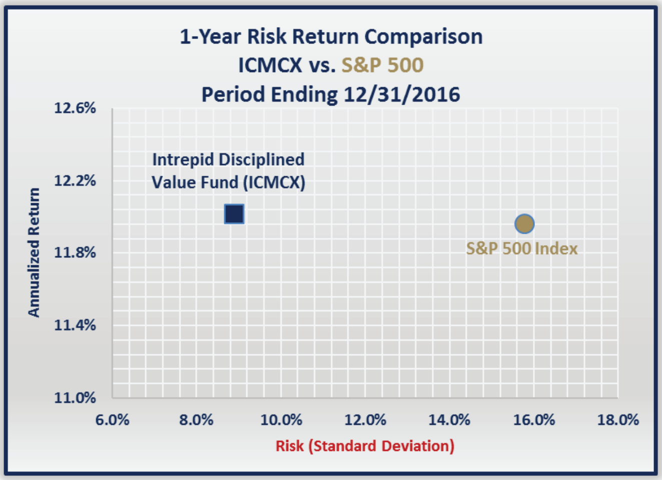
The chart to the right begins in 2009, which those with long memories will recall was the tail end of a truly horrific bear market. Since then, there have been some temporary blips, but we now seem to be wading into uncharted territory in which not even more than a year of declining earnings can stop this market. We dub it the Alfred E. Neuman market because nothing seems to worry it.

For the fourth quarter, the Intrepid Disciplined Value Portfolio ("the Portfolio") was up 1.97%, net-of-fees, below the mark set by both the S&P 500 Index of 3.82% and the Russell 3000 Index of 4.21%. The post-election rally fueled all major stock indices. From November 8th through the end of the year, the S&P 500 was up 4.98% while the Russell 3000 was up 5.81%. There was even more exuberance in the smallcap market, where the Russell 2000 Index was up 13.84%! In the end, it was the post-election rally that turned the fourth quarter around. We note the irony of this, since electing Donald Trump was supposed to be *a bad thing*. At least, that was the conventional wisdom prior to election day. On the Monday before the election, the S&P 500 increased 2.22% on the news that the FBI had concluded its briefly re-opened probe of Hillary Clinton's emails. The market rallied on relieved fears, believing that Secretary Clinton would be elected the next day. After the election, the market rallied on the belief that Mr. Trump would relax regulations, lower taxes, and increase infrastructure spending among other things, thus boosting economic growth. Why do we feel like we can hear music playing in the background? What is that catchy tune? Oh, that's right, it's the song from *The Lego Movie,* "Everything is Awesome!!!" This appears to be the most optimistic market we have ever seen.

4 Otani, Akane, "Earnings, Not Donald Trump, Are Stocks' Best Friend in 2017," *Wall Street Journal*, January 3, 2017.

We would be remiss if we did not mention that the Federal Reserve increased the Fed Funds rate in December for only the second time in a decade. The Fed now has an outlook for more aggressive hikes in 2017, with a target of 1.4% by the end of 2017. Part of this change in posture is because economic data looks more promising, but another reason is the possible inflationary implications of a Trump administration's fiscal policy prescriptions. Jayme Wiggins has more detailed thoughts on this in the Small Cap Portfolio commentary. The ten-year Treasury yield has also marched up in the post-election rally, ending the year at 2.45%. While still historically low, we think it is worthwhile to note both developments. We believe one of the primary inflators of equity values has been lower rates, which have forced equity investment with the rationale that there is no alternative. As rates climb, the alternatives to equity investment start to reappear. We think that is especially true for investors for whom fixed income investment is more appropriate due to risk tolerance, but who have felt as if they have had no other choice but to invest in equities.

For 2016, the Portfolio returned 12.31%, net-of-fees, compared to 11.96% for the S&P 500 Index and 12.74% for the Russell 3000 Index. The presence of higher-performing small caps propelled the divergence between the two indices. Although the Portfolio topped the S&P 500 for the year, we believe we did it in a far less risky fashion (see chart below). Consider that the Portfolio's cash level at year-end was 54.3% and has been high all year long, implying that the "pure return" on our holdings was well in excess of the market's return. It has been and continues to be a very challenging environment for value investors.



Source: Morningstar Direct

The Portfolio's performance for the year was fueled by its exposure to precious metals, with both Silver Wheaton (ticker: SLW) and Alamos Gold (ticker: AGI) among the top contributors, along with Western Digital (ticker: WDC). There were only three stocks that contributed negatively to performance: Unit Corp (ticker: UNT), American Science & Engineering (ticker: ASEI), and Oaktree Capital (ticker: OAK). Of these, ASEI was acquired for $37 per share in September and Unit Corp was sold back in May. We continue to hold Oaktree and have further discussion on the position below.

Among the top contributors for the Portfolio in the fourth quarter were Northern Trust (ticker: NTRS), Western Digital, and Leucadia (ticker: LUK). First, Northern Trust has participated in the post-election bank rally, as investors believe that a Trump Administration will relax financial regulations imposed by Dodd-Frank. At this point, there is little specific indication of what will happen, but the general call for decreased or relaxed regulation appears to be more clear. We consider this position to be close to fair value at this time.

Second, we have mentioned Western Digital in previous letters. The company's operating margin is improving, and at its recent Investor Day, the company reinforced the view that storage prices are stable and are likely to stay that way for some time. In our view, much of the improvement in operating margin will come from consolidation of the SanDisk acquisition and the HGST subsidiary located in China. Western Digital management received Chinese approval to begin eliminating operating expense redundancies previously mandated at HGST. Down the road, we should expect to see revenue synergies as Western Digital leverages its OEM (Original Equipment Manufacturer) customer relationships to drive increased sales of its newly acquired SanDisk products. For now, stable pricing and improving margins have been a dynamic duo for this stock.

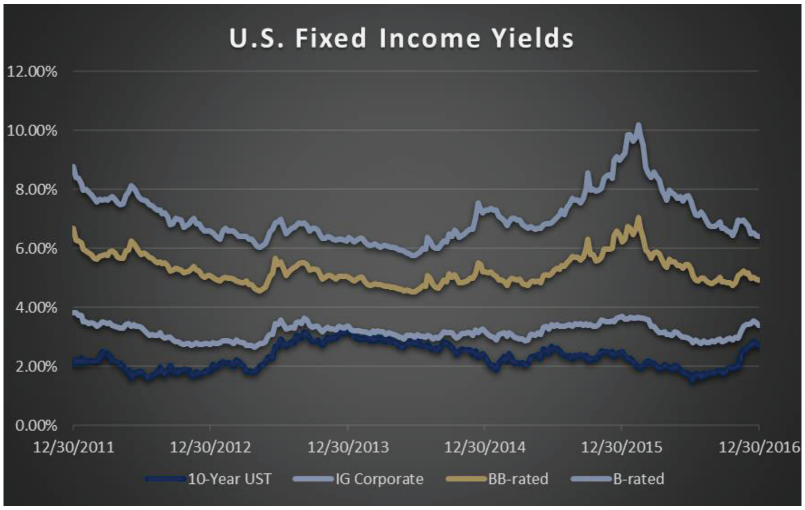
Finally, Leucadia has seen some return to normalcy after having gone through a rough revenue decline in its investment bank subsidiary, Jefferies. Fixed Income trading revenue has recovered, and some block stock positions that the company marks to market have also recovered from an earlier beating. Another big subsidiary, National Beef, has finally started to post consistent operating income. National Beef had been struggling with the narrow spread between what it must pay for slaughtered cattle and what it makes selling processed meat. Cattle prices have receded as cattle herds have grown and the strong dollar has scared away foreign purchasers of U.S. beef. The net result for National Beef is an improved spread earned on its processed meat.

The bottom contributors for the quarter include Teradata (ticker: TDC), Oaktree , and Alamos Gold (ticker: AGI). Alamos Gold saw a bit of a reversal after solid price gains earlier in the year. Again, the post-election rally led investors to cool on precious metals. Our position has been reduced as well. For Teradata, many investors have lost patience. As noted in previous letters, the company is going through a transformation. Rather than sell its data warehousing and management software on proprietary hardware, it wants to become what management calls "deployment agnostic." That means a customer does not need to spend millions to set up an in-house data warehouse, but can begin by using Teradata's services via a public cloud, such as Amazon Web Services or Microsoft's Azure. Such services are scalable, so the customer pays for what it needs to use and can increase its capabilities over time. TDC's CEO Vic Lund, who has been on the job for less than a year, has instilled a sense of urgency among the employees. However, 2017 is expected to be a trough year for revenue, and that is where most analysts have focused their attention. We have been, and are still willing to be, patient with this stock. Management noted in its recent Analyst Day that they will also be disclosing bookings and bookings growth on a quarterly basis so that analysts can better measure how Teradata's new delivery channels are performing. Management also has some very aggressive revenue growth rate goals after 2017, which implies that 2017 could be an inflection point. Stay tuned.

Finally, Oaktree has been in the same situation for a while now: a distressed debt investor in a low-rate environment. Low rates are particularly difficult for investors that want to be rewarded for taking risk, simply because the market does not price in much risk. That has been the case for Oaktree, and the longer it takes for more opportunities to surface, the longer it takes before they can begin another cycle of realizations on their investments. The dividend yield at year end, however, was 6.79%, and Oaktree also has a 20% stake in DoubleLine Capital. The stake is still carried on its books for the original investment of $26 million. Today, DoubleLine Capital manages more than $100 billion, so the asset is likely worth significantly more than its book value.

We close this letter as we have always done, citing the average discount among the Portfolio holdings. At year end, that average was 19%. This is an internal statistic that measures the stock price against our own estimates of intrinsic values for each holding. It indicates to us that the discount has shrunk a bit from the prior quarter. Cash levels in the Portfolio remain elevated, but this does not mean we are not looking for investable opportunities. We are willing to entertain many ideas. However, we are unwilling to overpay for those ideas. We thank you for investing with us and we realize that you have many alternatives. We appreciate your confidence in our process, and we wish you a prosperous 2017.

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



Source: Bloomberg

Last quarter, we wrote to you about plummeting government bond yields, $12 trillion in negative-yielding sovereign debt, and the 10-year U.S Treasury bond yield hitting an all-time low of 1.36%. We noted how the global search for yield continued to force investors to into higher-yielding securities by assuming more credit risk. Today, we write to you from a very different position. The unexpected Trump victory resulted in one of the most dramatic shifts in interest rates since 2011. The 10-year yield (shown in dark blue in the chart to the left) nearly doubled from the July lows, reaching 2.6% in December before closing the year at 2.4%. While the bump in rates appears to be merely a blip, the price impact to longer-maturity fixed income securities was considerable. For perspective, the 10-year Treasury issued on 8/15/2016 lost 7.3% in the fourth quarter, equal to nearly *five years* of coupon payments.

Our fixed income portfolios were not greatly impacted by the jump in rates due to our shorter-duration focus. In the fourth quarter the Income Portfolio (the "Portfolio") returned 0.20%, net-of-fees, compared to the 1.88% posted by the BofA Merrill Lynch US High Yield Index. Investment grade corporates, as measured by the BofA Merrill Lynch US Corporate Index, declined 2.88%. The Barclays Aggregate, which measures the broader investment grade bond market including government securities and mortgages, dropped 2.98%. High-yield bonds were able to produce positive returns in spite of the jump in risk-free rates due to significant spread tightening. The Trump win improved market participants' views of the economic outlook, which significantly reduced the perceived credit risk of high-yield businesses, particularly at the riskiest end of the credit spectrum. Additionally, energy bonds benefited from the continued stabilization of oil prices. The better-quality high-yield issues that we seek to invest in rose much less than the index. Investment-grade bonds performed significantly worse due to the longer durations and already tight credit spreads. While high-grade bond spreads did tighten slightly, it was not nearly enough to overcome the jump in government bond rates.

Q416 Fixed Income Returns	
CCC and lower*	5.90%
B*	2.10%
High Yield*	1.90%
BB*	0.70%
Investment Grade*	-2.90%
Barclays Aggregate	-3.00%
US Treasury Due Aug 2046	-14.90%

**Corporate indexes provided by BofA Merrill Lynch*

The Income Portfolio's performance in the quarter did not mirror the high-yield or investment grade corporate indexes for several reasons. Our allocation to high-yield-rated bonds is skewed toward the higher-quality issues, which broadly underperformed lower-rated bonds. Regarding our investment-grade holdings, all of our holdings are short-duration. Our longest-duration investment-grade bond matures in the summer of 2018. As a result, these holdings were not greatly impacted by the dramatic increase in interest rates. It's also worth noting that most of the Portfolio's holdings were not included in either of these indexes. In the full year, the Income Portfolio returned 8.53%, net-of-fees. This performance bested the investment grade corporate index's 5.96% gain and was significantly better than the Barclays Aggregate's 2.65% return. However, the Portfolio materially underperformed the high-yield index's spectacular 17.49% gain due to our higher-quality bent and large holdings of cash and short-term investment-grade bonds.

The top contributor in the fourth quarter was Unit Corp 6.625% due 5/21/2021 (ticker: UNT). Unit was our last remaining energy exploration and production (E&P) company. The bonds fell precipitously early in the year as the price of crude dipped below $30, but as oil prices recovered the Unit bonds trailed the dramatic price improvements of peer companies. In the fourth quarter, the valuation gap righted itself. Unit's bonds have traded nearly back to par ($100) after dropping below $50 early in the year, which seems premature considering the still relatively depressed state of oil prices at less than $55 per barrel. We took the opportunity to exit the position.

Alamos Gold 7.75% due 4/01/2020 (ticker: AGI CN) was the Portfolio's second largest contributor. The gold miner continues to plow ahead with the ramp-up of its flagship asset in Canada. Higher gold prices for most of the year allowed the company to generate significant cash to invest in its mines, which has left the company with an enviable balance sheet.

There was one material detractor (greater than 10 basis point impact) in the fourth quarter, which was Primero Mining's 5.75% convertible bonds due 2/28/2020. This issue is a new purchase for the Portfolio. Primero is a small gold miner with a key project in Mexico. The company is working through some labor issues with this mine, as well as trying to rectify a tax situation with the Mexican government. As if these issues weren't enough, Primero also has somewhat limited liquidity and is attempting to renegotiate its credit facility. There are clearly some risks to the position, but at 60 cents on the dollar, the yield is 24.8%. We believe we are being fairly compensated to assume these risks, and ultimately we think the company will be able to work through these near-term issues.

In the fourth quarter, we initiated positions in several short-term, investment-grade corporate bonds as higher risk-free rates provided attractive entry points. These securities all have a duration of less than two years. We also invested a large portion of our cash balance in U.S. Treasury bills. Regarding higher-yielding securities, we identified two bonds that we believe offer attractive risk-adjusted yields. Our investment in Carrols Restaurant Group 8% notes due 5/01/2022 is discussed below. Primero mining was our second purchase.

Carrols Restaurant Group (ticker: TAST) is the U.S.'s largest franchisee of Burger King restaurants with 734 stores in 16 states as of the company's last quarterly filing. The store count is closer to 800 including recent transactions. The firm's restaurants are primarily located in the Northeast, Mid-Atlantic, and Midwest. Carrols has grown over the last five years due to a consistent acquisition strategy and an improvement in Burger King's image. In 2010, Burger King corporate was acquired by Brazilian private equity group 3G Capital. 3G is well-known for its superior operating ability, and Berkshire Hathaway has partnered with the firm on several large deals, including Tim Hortons, H.J. Heinz, and Kraft Foods. In 2012, Burger King corporate sold its company-owned stores to Carrols and entered into a partnership, which essentially made Carrols the franchisee of choice. Burger King also made an investment into Carrols (via a portfolio company called Restaurant Brands International) and placed two directors on the board.

Carrols has not generated meaningful free cash flow over the last few years due to heavy investment in store remodels. However, these are necessary expenditures to ensure the long-term viability of the business. As the remodeling program nears completion, Carrols should generate strong free cash flow. While the restaurant business is highly competitive, we like that Carrols operates in a segment of the industry that appears to be less susceptible to trends and fads. The Burger King brand is over 60 years old and is well-established. Furthermore, we believe the partnership with 3G is a valuable enhancement to Carrols's credit quality.

Several of the Portfolio's holdings were called, sold, or matured in the fourth quarter. One of our largest positions, Pitney Bowes International Holdings preferred stock, was called by the company. We've written about this position in the past, but to quickly recap, this was a unique security issued by a subsidiary of Pitney Bowes, which provides integrated mail and document management systems. The preferred had a feature called a step-up coupon. In October 2016, the 6.125% coupon was set to increase by 50% twice per year going forward. While the security technically never matured, the step-up coupon effectively forced the company to redeem the preferreds or pay onerous coupons to investors. The security was called in October as we anticipated it would be.

We sold our positions in the bonds of Era Group, Unit Corp (discussed above), and Ruby Tuesday. These were smaller positions. Era Group (ticker: ERA) is a provider of offshore helicopter services to energy companies. The company was recently required to fully consolidate the financials of a Brazilian subsidiary into its publicly reported financials. In our opinion, this action significantly muddies the ability of investors to assess the cash generative ability of the business. This is particularly concerning to us in the context of the firm's deteriorating domestic business. We concluded the small position was consuming too much of our analytical workload to warrant holding.

Ruby Tuesday (ticker: RT) owns and operates its namesake restaurants across the United States. The company is well-known as one of the first purveyors of the salad bar, which it calls the "Garden Bar." The restaurant industry is extremely competitive, which typically steers us away from these businesses. However, while most restaurants are leased by the operators, Ruby Tuesday owns a significant number of its stores. Over the years, it has been successfully monetizing underperforming stores. While the brand was struggling through a turnaround, the real estate-backed asset value allowed us to be comfortable lending to the firm. Fast forward more than four years – restaurant performance has still not stabilized, and the company is

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

again implementing a menu refresh in an attempt to stem the bleeding. If the concept can't succeed in the slowly improving economic environment of the last few years, it's difficult to imagine a scenario in which store performance will stabilize. While RT's asset value is still adequate, we see the notes as fully valued close to par.

The commodity rebound and Trump-induced spread tightening have pushed high-yield corporate bond yields back near all-time lows. We are treading very carefully this far into the cycle. As the global hunt for yield continues, we want to be cautious of the potential for a reset in risk profiles. Not everyone can fit through the door at the same time. We believe the portfolio is well-positioned to withstand such a scenario.

We wish you a happy New Year. Thank you for your investment.

INTERNATIONAL PORTFOLIO – COMMENTARY BY BEN FRANKLIN, CFA, PORTFOLIO MANAGER

All eyeballs were fixed on the U.S. election during the fourth quarter. When it became clear that Trump would be the victor, international markets plummeted, fearing the worst. They quickly rebounded, at least in their local currency. This erratic behavior is entertaining to witness, but does not tell us what the future holds. In the book *Influence*, author Dr. Robert B. Cialdini explains that "especially in an ambiguous situation, the tendency for everyone to be looking to see what everyone else is doing can lead to a fascinating phenomenon called 'pluralistic ignorance.'" He later goes on to explain that in times of uncertainty, "we are willing to place an enormous amount of trust in the collective knowledge of the crowd." The stock market provides a transparent way to view what everyone else is doing, and we believe the market's reaction in this time period may represent a feedback loop derived from a form of pluralistic ignorance. This type of bias can be dangerous; Dr. Cialdini has gone as far as to have used it as an explanation for the mass suicide that occurred at Jonestown.

Other noteworthy events during the period include the Italian referendum on December 4th that would have given the government more power if passed, the ECB's announcement on December 8th that it will be reducing its bond purchases from €80 billion to €60 billion per month, and the December 14th announcement that the federal funds rate will increase 0.25% to a range of 0.50% to 0.75%. From then on, the markets were relatively calm as participants knocked back some eggnog to cruise into the new year.

The MSCI EAFE Net Index (the "EAFE") finished the quarter down 0.71%, while the Intrepid International Portfolio (the "Portfolio") finished about flat at 0.15%, net-of-fees. The EAFE's decline was due primarily to the impact of currency as the dollar strengthened significantly. The MSCI EAFE Hedged Index returned 7.26% during the quarter. We don't believe there is a perfect benchmark, especially during a time period as short as one quarter. A hedged index is useful as a comparison, as it adjusts for the impact of currency. However, over time we strive to outperform the EAFE index, as it is the most visible and prominent benchmark used. We will continue to include both indices on our fact sheets. For the year, the EAFE's return was 1.00%, while the Portfolio returned 17.17%, net-of-fees. The hedged EAFE index returned 6.15%.

During the fourth quarter, the three largest contributors to Portfolio performance were Programmed Maintenance Services (ticker: PRG AU), LifeHealthcare Group (ticker: LHC AU), and Fenner (ticker: FENR LN). The three largest detractors were Clere (ticker: CAG GR), METKA (ticker: METTK GA), and Dundee (ticker: DC/A CN).

As of the beginning of last February, we thought we would be explaining why Programmed Maintenance Services, an Australian maintenance and staffing company, was our largest detractor: it was down 16% quarter-to-date. The company had previously released a trading update explaining EBITDA for the fiscal year would be 20% below their primary forecast due to trouble in their business with the closest ties to the oil & gas sector. Later in November, the company announced earnings and confirmed their previous guidance, and in December announced they won a contract to provide staffing and logistical support at Shell's Prelude floating natural gas project. The announcements were enough to placate investors, sending the shares up 40% off their lows. This investment has been a wild ride for a boring staffing and maintenance business. A poor merger, exposure to cyclical resources, and a significant but manageable debt load are to blame for the volatility.

LifeHealthcare Group is an Australian distributor of medical devices. The company has come under pressure recently due to concerns over cuts in pricing of medical devices on a government Prosthesis List used to determine the price private health insurers pay manufacturers. LifeHealthcare has been transparent about the potential impact, and disclosed that there would only be a 3% variation in pricing for products they supply on a weighted average basis. The market appeared unconvinced, but once the Prosthesis List announcement was made by the government and LifeHealthcare reiterated their stance, the stock began its ascent.

Fenner is a global leader in manufacturing and servicing conveyor belts used in mining operations. The majority of its customers were thermal coal miners in North America and coking coal and iron ore miners in Australia (thermal coal is used to generate electricity, while coking coal and iron ore are used in the production of steel). The company also produces a variety of specialized industrial components used in a range of end markets. As commodity prices fell in 2014 and 2015, Fenner's customers delayed orders and sought price reductions. We got involved in the stock in early 2015 as it fell to a level we believed was a compelling price relative to our valuation based on normalized cash flow. Unfortunately, our timing was not perfect and the stock continued to fall while conditions remained bleak in the company's end markets. In early 2016, we added to the position once the stock fell to £1.00. This time, our timing proved to be fortunate. The stock rallied close to 150% in the remainder of the year thanks to improving conditions in end markets, a partial rebound in commodity prices, and a strategic shift away from supplying the North American coal industry whose challenges are more secular than cyclical. We exited most of our position in late 2016.

Clere has been discussed at length in past commentaries. The security paid out a €9 per share dividend on October 14th that is treated as a return of capital, which has resulted in no taxes being owed. Since that time the stock has trickled down slowly, and as it is the largest weight in the portfolio, a minor decline has a large impact. We do not believe the decline in the security represents a decline in the intrinsic value.

METKA is an international EPC (Engineering, Procurement and Construction) contractor and industrial manufacturer. The company is 50% owned by the Greek industrial company Mytilineos (ticker: MYTIL GA), which consolidates the company for its reporting purposes. On December 14th, Mytilineos announced that it intends to merge with METKA by exchanging shares at an exchange ratio of 1:1. At the time, Mytilineos shares were trading at a 13% discount to METKA, resulting in a "take*under.*" This is absurd to us, as METKA had over €400 million in net cash and receivables from the parent company compared to the announced value of roughly €320 million. The conflicts of interest in this deal are numerous. By virtually any measure, METKA is clearly the better business between the two. Its historical returns on equity are much higher than those of its parent, and it operates with a clean balance sheet compared to the significantly leveraged balance sheet of Mytilineos. In fact, Mytilineos relies on METKA and owes them substantial money. Despite these differences, Mytilineos is attempting to absorb METKA for a ridiculously low EV/EBITDA multiple of 1.7x and a Price to tangible book value of only 0.6x (which is primarily cash and receivables). We are doing what we can to, at a minimum, get a better deal. Barclays will produce an independent valuation of METKA, and the deal must pass through regulators – both of which we think have potential to pressure management to sweeten the deal.

Dundee Corporation is a holding company discussed in prior commentaries. Furthermore, a detailed update is provided in the commentary for the Small Cap Portfolio.

We initiated one new position in the quarter in the shares of ToxFree (ticker: TOX AU). The company is in the waste management industry in Australia, and focuses on the treatment of waste rather than owning landfill assets. The company is well-known for its treatment of difficult-to-treat hazardous waste streams. In order to treat hazardous waste, companies must obtain a license to build a facility. As one would expect, these are difficult to get. Not only does the Australian EPA take years to grant a license, it must also be approved by the local community. While most agree that treatment of hazardous waste is necessary, no one wants it in their back yard (NIMBY!). Thus, rather than going through the arduous process of developing these licenses, ToxFree has acquired them from small mom and pop companies around Australia. Once the license is granted, it is easy to grow the facility without further approval. These licenses are valuable to potential acquirers, making ToxFree a likely buyout candidate at some point in the future. However, our investment is not based on the expectation of a buyout as we believe it is undervalued on its own merits. The Australian waste management industry has not consolidated as quickly as it has here in the United States, and we expect further consolidation. ToxFree has kept a fairly clean balance sheet due to issuing equity as part of their acquisition strategy, which reduces one risk common in this industry, whereby debt-fueled acquisitions result in a high risk of default and reorganization.

While not a top contributor for 2016, another interesting business that we held during the year was a Japanese IT company called Broadleaf. It sells software and other network services to auto repair shops and parts dealers in Japan. A former Carlyle holding, its products connect repair shops with their customers and suppliers, making it easier for them to do business. The investment case featured several characteristics that we like – highly recurring revenues (via software renewals), excellent returns on invested capital, promising new growth opportunities, strong balance sheet, and conservative capital allocation by management. We established a position in the summer of 2016 as a slowdown in core software sales weighed on the stock. Not much changed in the business or stock price until an announcement by the company in November. Shareholders were told that Broadleaf was providing a shareholder benefit plan that would include a prepaid gift card ("Quo" card) and store credit to the company's online auto parts store ("Buhin MAX"). Shareholder gifts such as these are actually quite common among Japanese companies, as gift giving is much more culturally ingrained. It is a popular alternative to dividends and stock buybacks as a means to return value to shareholders. However, the value of the gifts do not scale proportionately to ownership. The total value of our gift cards was the maximum level, or about $104 at today's exchange rates. While the gift itself was clearly immaterial for the Portfolio, it did help create huge excitement among retail investors who sent the stock soaring almost 50% in the weeks after the announcement. We used this opportunity to exit all of our position. Rather – almost all of our position. We retained just enough shares to be eligible to receive the gift cards when they are distributed. Assuming the gift card travels the Pacific Ocean, we'll post a picture of it in the next commentary.

Calendar year 2016 was a fun year. Not everything worked out as we hoped, but at certain times we felt Yphurm's law was in effect. We review the year as one where we believe we benefited primarily from our security selection, as we had several company-specific events drive our performance. We prefer our performance to be determined this way, and not by the whims of the market (especially when our return is positive!). At a minimum, this reflects our ability to resist succumbing to the pluralistic ignorance phenomenon. We will continue searching for these off-the-beaten-path investments, as the opportunity set in traditional stocks is still not enticing. Some of these ideas are similar to what Warren Buffett termed "cigar-butt" stocks. If a significant market dislocation were to occur, we believe there is a higher probability we will be investing in more household names. We hope, to a certain extent, this doesn't take too long. Smoking is very addictive, and the longer we employ cigar-butt investing as part of our strategy, the more ingrained it will likely be. If it continues to provide returns like we saw this year (these must have been Cubans!), this may not be a bad thing. While we're happy with our annual return, we think risk is equally, if not more important. We do not directly manage the portfolio to keep the standard deviation down, but we believe our process will result in such. There is no perfect measure for risk, but we have used standard deviation as one estimate. By this measure, we handily beat both the Index and our Bloomberg peer group.

	Risk (Standard Deviation)	**2016 Return**
Intrepid International Fund (ICMIX)	**9.3%**	16.7%
MSCI EAFE Index	**14.3%**	1.0%
Bloomberg Peer Group - Foreign Blend	**14.5%**	2.6%

Source: Bloomberg

We look forward to the challenges that await us in the next year, and will continue to hone our skills. We wish all of you a Happy New Year. Thank you for your investment.

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

The Intrepid Select Portfolio (the "Portfolio") returned 23.90%, net-of-fees, in 2016 compared to a 21.31% gain for the Russell 2000 Index and 20.74% increase for the S&P MidCap 400. The Portfolio's absolute return was created by a steady climb higher over the first seven months of the year, after which we flatlined. During the fourth quarter, the Portfolio returned (0.57%), net-of-fees, while the Russell surged 8.83% and the MidCap 400 rose 7.42%. We did not participate in the small cap market's post-election euphoria because of the uncorrelated nature of our holdings compared to popular benchmarks. The Select Portfolio's holdings include stocks with slightly larger capitalizations, foreign securities, investments in precious metals and gems, and convertible bonds. In general, the performance of these groups of securities fell far short of U.S. small caps in the quarter.

For all of 2016, the Portfolio's top three gainers were Silver Wheaton (ticker: SLW), Sandstorm Gold (ticker: SAND), and Tetra Tech (ticker: TTEK). The Portfolio's largest contributors for the fourth quarter were Tetra Tech, Leucadia (ticker: LUK), and Western Digital (ticker: WDC). Tetra Tech, a leading supplier of water-related consulting and engineering services, has rallied on hopes of renewed infrastructure spending. The firm's operating margins are also approaching record levels, as management works to integrate a recent acquisition.

Leucadia has seen some return to normalcy after having gone through a rough revenue decline in its investment bank subsidiary, Jefferies. Fixed Income trading revenue has recovered, and certain block stock positions that the company marks to market have also recovered from an earlier beating. Another big subsidiary, National Beef, has finally started to post some consistent operating income. National Beef had been struggling with the narrow spread between what it must pay for slaughtered cattle and what it makes selling processed meat. Cattle prices have receded as cattle herds have grown and the strong dollar has scared away foreign purchasers of U.S. beef. The net result for National Beef is an improved spread earned on its processed meat.

We have mentioned Western Digital in previous letters. This company's operating margin is improving, and at its recent Investor Day, the company reinforced the view that storage prices are stable and are likely to stay that way for some time. In our view, much of the improvement in operating margin will come from consolidation of the SanDisk acquisition and the HGST subsidiary located in China. Western Digital management received Chinese approval to begin eliminating operating expense redundancies previously mandated at HGST. Down the road, we should expect to see revenue synergies as Western Digital leverages its OEM (Original Equipment Manufacturer) customer relationships to drive increased sales of its newly acquired SanDisk products. For now, stable pricing and improving margins have been a dynamic duo for this stock.

The three largest detractors for 2016 were Oaktree Capital (ticker: OAK), Primero Mining's convertible bonds (CUSIP: 74164WAB2) and the iShares Gold ETF (ticker: IAU). The two precious metals positions were also two of the top losers for the fourth quarter. In our letter to you last quarter, we commented on our profitable sales of Silver Wheaton and Sandstorm Gold and rotation into the iShares Gold ETF and Primero convertible bond, stating that they were lower beta investments than the streaming firms, *"which could prove useful if there is a temporary dip in precious metals prices."* We were half right.

Gold prices are down 9% since the U.S. election and are off 15% from the summer highs. Gold is being negatively impacted by rising interest rates and the strong dollar. After selling our streaming companies last quarter, we wanted to maintain some precious metals exposure in light of irresponsible behavior by central banks around the world. We welcome higher interest rates, and the inertia right now is for the Fed to continue hiking gradually. Nevertheless, we believe the Fed will eventually cut rates again before any *real* economic strength takes hold, and at that point investors will realize we cannot extricate ourselves from low rate-dependency without incurring pain. We expect gold to react favorably.

Our Gold ETF investment declined much less than the streaming positions we sold, so in a way it did its job, although the Portfolio obviously would have been better off in Q4 with zero gold exposure. Our Primero Mining convertible bond position did not hold up as well as we expected. While the notes were pressured by falling gold prices, Primero's third quarter earnings suffered from ongoing labor issues at its San Dimas Mine in Mexico. We thought the labor problems had been resolved, since the company made a significant bonus payment to the mine workers in July. It turns out many of them, newly flush with cash, decided to not show up to work. The San Dimas Mine is located in a remote, mountainous area near the town of Tayoltita. The town of 8,000 would not exist without the mine, which employs 1,596. Historically San Dimas has been a low cost operation, with average all-in sustaining costs of $774 per gold ounce from 2011-2015. Labor issues and other one-off problems have materially inflated costs in 2016. We expect union members to eventually come to their senses, since there are few opportunities for employment in Tayoltita. The depreciating Mexican peso should help mitigate some of the impact of lower gold prices on Primero's results.

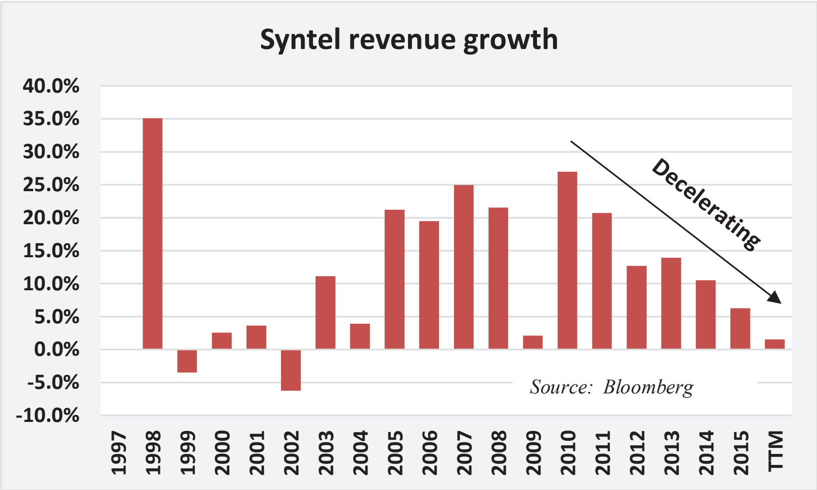
Primero's credit facility expires in May, and management has warned that the company does not currently have enough cash to repay the bank revolver, should it not be renewed by lenders. As of the last report, Primero had borrowed $49 million from the facility, while the company's cash was $31 million. Primero is in discussions with banks to extend the facility. Management is exploring options to improve liquidity, such as marketing for sale Primero's Cerro de Gallo project in Mexico. Although it wouldn't be fun, the company may also be able to issue equity again. Lastly, if things get really bad for Primero, we think they could receive a bailout of sorts from their streaming partner Silver Wheaton. Besides Primero, Silver Wheaton has the most to lose from San Dimas shutting down. San Dimas accounted for 16% of Silver Wheaton's total production during 2015, and Silver Wheaton has received about $80 million of cash flow per year from the stream. We believe Silver Wheaton would relax the terms of its stream with Primero to help the firm avoid distress or possibly as part of an acquisition of Primero by a larger gold company.

In the event Primero is not able to renew its credit facility and is forced to restructure, we believe convertible bondholders like us would either end up owning the equity of the company or would be paid off in full after another miner acquired the firm. Bondholder recoveries would hinge on whether Primero's streaming partners attempt to reassert their streams or participate as large senior secured creditors in a restructuring. Currently, there is only $49 million in bank debt ahead of convert owners, and Primero's enterprise value is approximately $250 million. We believe the $75 million in par value ($45 million market value) of bonds is covered under most scenarios. The worst outcome for Primero would be one of further declines in gold prices, an inability to come to reasonable terms on taxes with the Mexican government, and ongoing labor problems. At a price of 60 the bonds are yielding 24.8%. We think we are being adequately compensated for Primero's risks.

For Teradata, many investors have lost patience. As has been noted before in our letters, the company is going through a transformation. Rather than sell its data warehousing and management software on proprietary hardware, it wants to become what management calls "deployment agnostic." That means a customer does not need to spend millions to set up an in-house data warehouse, but can begin by using Teradata's services via a public cloud, such as Amazon Web Services or Microsoft's Azure. Such services are scalable, so the customer pays for what it needs to use and can increase its capabilities over time. TDC's CEO Vic Lund, who has been on the job for less than a year, has instilled a sense of urgency among the employees. However, 2017 is expected to be a trough year for revenue, and that is where most analysts have focused their attention. We have been and are still willing to be patient with this stock. Management noted in its recent Analyst Day that they will also be disclosing bookings and bookings growth on a quarterly basis so that analysts can better measure how Teradata's new delivery channels are performing. Management also has some very aggressive revenue growth rate goals after 2017, which implies that 2017 could be an inflection point. Stay tuned.

The Portfolio purchased one new security during the quarter, Syntel (ticker: SYNT). Syntel provides IT outsourcing primarily to U.S. companies by utilizing a large Indian workforce. Your reaction might be that this is a risky trade in light of the president-elect's rhetoric on outsourcing, since Syntel's fortunes depend on using foreign workers to perform services more cheaply than Americans. However, unlike in the American manufacturing sector, it is not difficult for U.S. citizens with technology backgrounds to find high-paying jobs today. While possible changes to U.S. H-1B visa rules for India-based outsourcers could raise costs, we believe the industry has ways to mitigate the impact from adverse legislation and think investor concerns over this issue are already partly reflected in Syntel's share price.

Syntel has a concentrated customer base, with its top 3 clients accounting for 48% of revenue. After many years of rapid growth, Syntel has recently seen its quarterly revenue decline for the first time in over a decade. Syntel's top line performance over the past year has been worse than its larger competitors, leading some to conclude that the company is not as well positioned to address the evolving technology needs of customers, encompassing investments in social media, mobile, analytics, and cloud offerings.



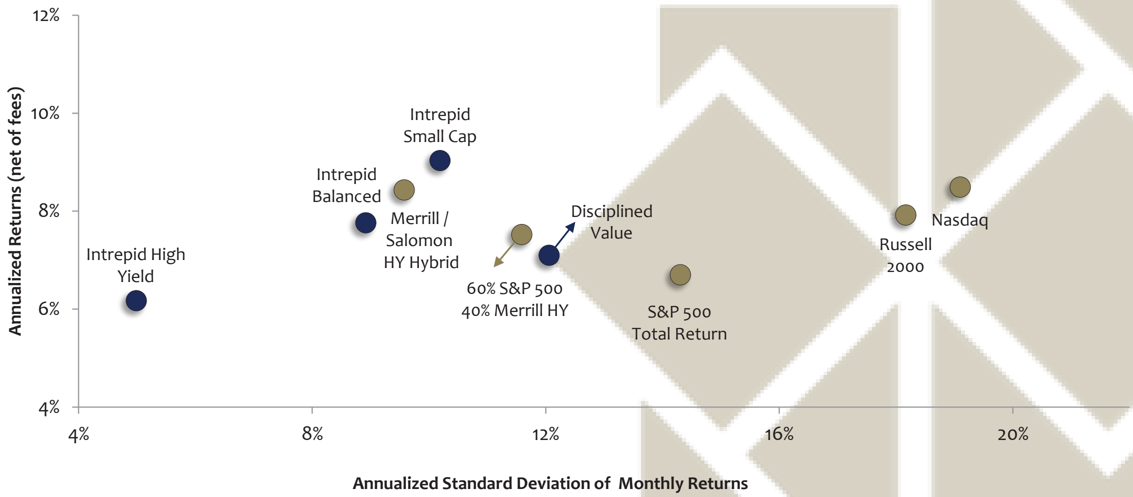
While Syntel should continue to develop newer "digital" offerings, the company's percentage of revenue from digital activities already appears to be in-line with most peers that advertise this metric. Also, Syntel has industry-leading margins, so it is operating from a position of strength. The company should be able to accelerate revenue growth back to the industry trend line with additional investments and once spending revives for North American Financial Services and Healthcare customers. These are the largest industry verticals served by the firm, but spending trends have been softer than in other sectors where competitors have more exposure. The company's customer concentration introduces risk, but Syntel's top clients have been stable for over a decade and Syntel is deeply embedded in their operations. The stock is trading for 8x normalized operating profit and less than 10x expected free cash flow. Syntel's peers currently trade for an average forward EV/EBIT multiple exceeding 12x (14x trailing). Insiders have recently purchased more stock on the open market than at any point in Syntel's history.

Risk Adjusted Returns

Intrepid Capital

Trailing 15 Year risk/return

December 31, 2001 to December 31, 2016



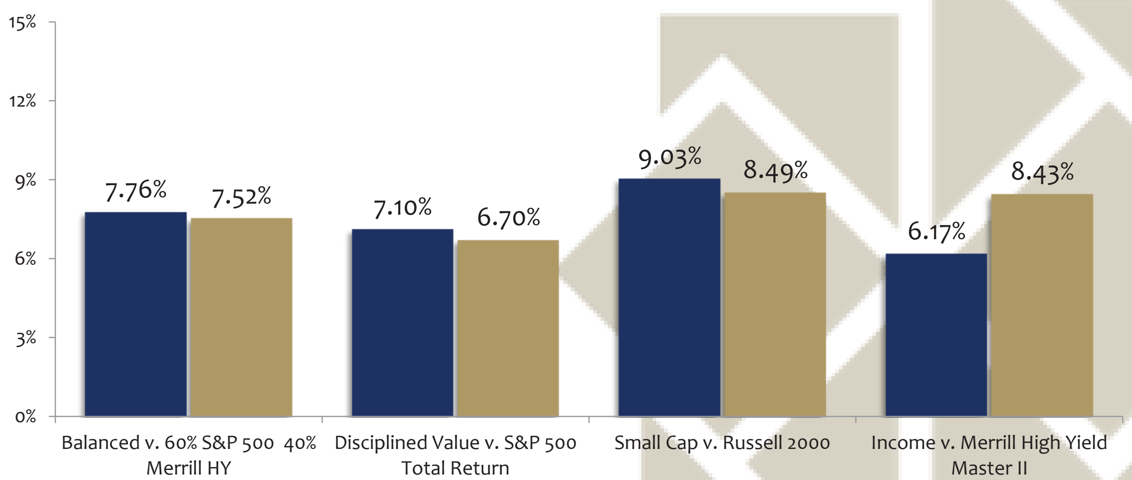
- Past performance is no guarantee of future results. Intrepid composite returns are presented net of investment advisory fees and all returns are presented annualized for the 15-year period ending December 31, 2016. Returns reflect the reinvestment of dividends and other earnings. The volatility of 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

Intrepid Capital

Trailing 15 Year risk/return

December 31, 2001 to December 31, 2016



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