Intrepid Capital
MANAGEMENT INC.

3Q 2015

Index Returns	
7/1/2015 to 9/30/2015	
Dow Jones:	-6.98%
S&P 500:	-6.44%
NASDAQ:	-9.16%
Russell 2000:	-11.92%
MSCI EAFE	-10.23%

QUARTERLY COMMENTARY

October 2015

“If you can’t stop, smile as you go under”

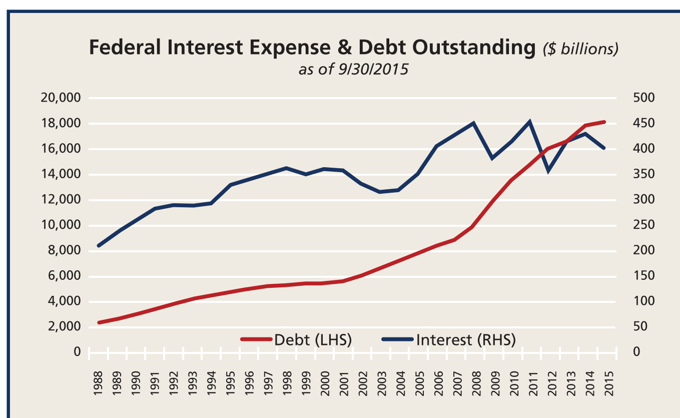
— Bumper sticker on large 4 x 4 truck

Dear Friends and Clients,

In reflecting back on the third quarter of 2015, as well as the last calendar year, I am not surprised by the fact that the returns in the capital markets have been unattractive. We have warned investors repeatedly that prices were high and the pickings slim.

Volatility was finally reawakened in late August with the Chinese central bank announcing a devaluation of the Chinese currency, the Yuan, in an effort to prop up their collapsing economy. The Chinese have pulled out all the stops to try to slow a crashing stock and housing market, including banning selling by major shareholders, temporarily halting trades in more than half of the companies listed on Chinese exchanges, and even threatening short sellers with imprisonment. So much for central planning!

The story is less dramatic but not all that different on this side of the Pacific. Our Fed policy, which I have referred to in the past as a “morphine drip of interest rate suppression,” is now called into question as the Fed declined the opportunity at their mid-September meeting to move the Feds Fund Rate up even 25 basis points (¼ of 1%)! This is after the recession was declared over in June of 2009, more than six years ago. This government-led rate suppression has caused a massive misallocation of capital and over–investment, as investors attempt to find any investment vehicle yielding more than the roughly 0% offered on the shorter end of the yield curve.



Source: TreasuryDirect.gov

It’s not difficult to understand why the federal government would be in no hurry to see higher rates. The rate suppression has enabled the government to continue its profligate deficit spending, driving up the national debt without feeling the full effect of higher interest payments. As the accompanying graph shows, interest expense on government debt has been relatively stable over most of the last decade even while the amount of debt has skyrocketed. The answer to our annual government deficits is not as simple as taxing the rich or retreating from foreign entanglements, as my friends on the left would have you believe. A more normalized (4-6%) interest rate would cause much more fiscal pain in our federal government. I hope this pain would force those on the right and left to reconcile their differences and generate policies conducive to a higher rate of growth than we have had in the past.

In a normal business cycle, a severe recession is usually followed by a “bounce”; a strong rebound in economic conditions. That has not been the case this time around as the government adopted policies and regulatory burdens at the trough of the cycle that have retarded economic growth, including Obamacare, the Consumer Financial Protection Bureau, and a host of oppressive and costly EPA “earth first” policies.

These policies, and many others in which power is taken from individuals and state and local governments and abdicated to an ever larger federal government, make this country more and more subject to what I call “Euro Sclerosis” – policies followed in countries like France, with rigid inflexible labor costs, high regulatory burdens, high unemployment, particularly among their youth, and nearly invisible growth rates. France’s GDP has grown less than 0.5% a year since the late 1970’s. I don’t think this is an outcome we as a country want; I know I don’t.

In preparation for writing this letter, I like to look back at past communications with shareholders to help me gain a longer-term perspective. I noticed at year-end 2014 that I commented, “It will be interesting to see how the Federal Reserve works its way out of the ‘box canyon’ in which it finds itself.” I went on to say, “With an aging bull market, coupled with high stock and bond prices, we believe the prices could swing dramatically.” In a word, YES, they have, over the course of the third quarter of 2015. The equity indices, along with the Bank of America Merrill Lynch High Yield index, all fell over the period. We were not immune, unfortunately.

Our cash buffer may have helped at the margin, but maybe not as much as I would have liked. I am hopeful that we “took our lumps” earlier in the year, largely related to oil and gas investments made over the course of the last year. I think the markets have “caught” us on the way down, hence my bumper sticker quote at the top of this letter!

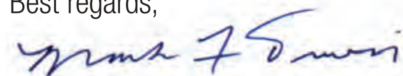
As uncomfortable as it is to be down for the moment, I regard this as a normal part of our value-seeking contrarian investment process. These difficult days will hopefully let us plant the seeds of new investments at attractive prices for the next “harvest” in years hence.

For the quarter ended September 30, 2015, the Intrepid Balanced Portfolio (the “Portfolio”) declined 8.27%, net-of-fees, compared to the BAML High Yield Master II Index and the S&P 500 Index, which declined 4.90% and 6.44%, respectively, for the period. Certainly nothing to get excited about, but a performance we think we can recover from. My family and I are invested along with you in the Intrepid portfolios. Our goal is to protect the downside, while participating in the upside, which we believe we have done since inception. Perhaps our top priority in this still-rich equity environment is trying to avoid the 40 – 50% drawdowns investors saw in equity indices and index-centric products in the last bear market. You probably are aware of the math; if you are down 50%, you must have a 100% return just to get back to even. This is something we want to avoid.

With an annual rate of return of 7.91%, net-of-fees, the Portfolio has outperformed the S&P 500 Index and the Russell 2000 Index which posted returns of 3.96% and 6.51%, respectively, for the trailing 15-year period ended September 30, 2015. Due to higher than normal levels of cash and addition of fixed income, we believe the Portfolio took significantly less risk than the equity indices over this period. The Portfolio’s three largest contributors during the quarter were Ingram Micro (ticker: IM), Amdocs (ticker: DOX), and Pitney Bowes International Pfd. The three largest detractors for the quarter were Dundee Corp. (ticker: DC/A CN), Unit Corp. (ticker: UNT), and Corus Entertainment (ticker: CJR/B CN).

Thank you to our clients for making this all possible.

Best regards,



Mark F. Travis
President/CEO

SMALL CAP PORTFOLIO – COMMENTARY BY JAYME WIGGINS, PORTFOLIO MANAGER

It's a start, but it's not enough. A strange thing happened this quarter: the stock market declined. After a string of 10 consecutive quarterly gains, the S&P 500 index fell 6.44% over the prior three months. The Russell 2000 small cap index dropped 11.92%. Both indexes are in correction territory, with the Russell down 14.7% from its all-time high. The frothiest slice of the small cap market, the Russell Biotechnology Index, has cratered 31.1% from its peak. Yields on junk-rated debt have climbed rapidly, with more bonds in distress now compared to any time since the last recession. Market conditions are also bad in Europe and are downright scary in China, where authorities have practically outlawed bad-mouthing stocks in a desperate attempt to prop up markets. Investors are losing faith in the omnipotence of central bankers. Dovish actions by the Fed during its last meeting were followed by confused selling on Wall Street, in stark contrast to the Pavlovian buying of the past 5 years.

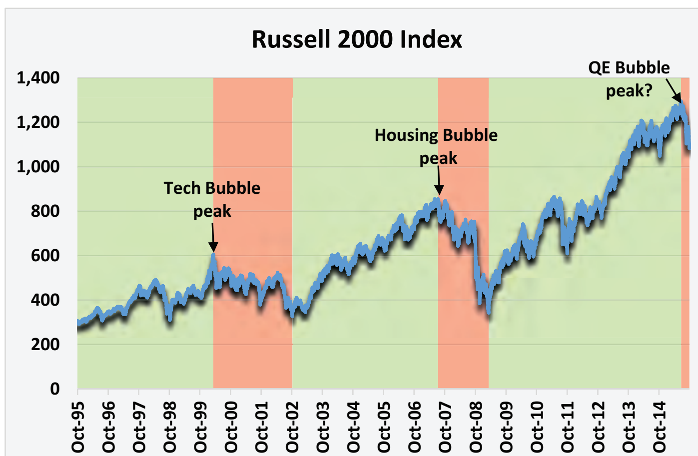
P/E for Largest Industries in Russell 2000
(September 30, 2015 - dollars in millions)

Industry	Mkt Cap	Net Income	P/E
Banks	$192,556	$11,563	16.7
REITS	$155,684	$4,939	31.5
Retail	$113,065	$4,226	26.8
Healthcare	$112,540	$428	262.8
Software	$95,762	($400)	***negative***
Commercial Services	$95,269	$1,954	48.8
Pharmaceuticals	$91,554	($3,381)	***negative***
Biotechnology	$69,987	($4,451)	***negative***
Utilities	$65,300	$2,854	22.9
Computers	$61,872	$1,093	56.6
Insurance*	$55,803	$3,747	14.9
Telecommunications	$55,686	$1,200	46.4
Electronics	$55,308	$1,954	28.3
Diversified Financials	$53,960	$2,361	22.9
Energy	**$53,580**	**($11,275)**	***negative***
Food & Beverages	$52,194	$2,008	26.0
Semiconductors	$51,691	$276	187.0
Internet	**$51,081**	**($860)**	***negative***
Transportation	$36,729	$664	55.3
Chemicals	$31,324	$882	35.5

*Source: Bloomberg, Intrepid Capital; *Excludes municipal bond insurers*

The last 8 weeks were unpleasant for most investors, painful for some, and devastating for a few. However, security prices are still unsupported by fundamentals, in our opinion. As of September 30, 2015, the Russell 2000 traded at 63x the aggregate net income of its constituents. The median P/E multiple was 30x and was meaningfully reduced by financial companies, which have a P/E of 18x. The non-financial companies in the index traded for 82x their collective free cash flow.[1] The median free cash flow multiple of this group was 41x.

The journey away from Fed-focused investing and back to normality could be difficult. The QE bubble has lifted small caps to levels that make the prices they reached during the housing and tech bubbles look pedestrian. We don't know whether June 23, 2015, will mark the peak of this investment cycle for the Russell 2000. We think the small cap market should trade significantly lower in order for valuations to appropriately reflect cash flows.



Source: Bloomberg

Most investors acknowledge the Fed's influence on stock prices throughout this bull market. Some justify current valuations by citing extremely low interest rates. The valuation multiple for a stock is computed as the reciprocal of the difference between an investor's required return and the growth rate of the company's cash flows. Today, many investors have lowered their required returns (i.e. discount rates) as a result of low interest rates. In doing so, they argue that the valuation multiples of stocks should be higher. Assume under normal circumstances an investor demands a 10% return for owning the equity of a company which is expected to grow its cash flow at a 5% perpetual rate. The

1 *It is difficult to define free cash flows for most financial companies because their balance sheets are part of their operations. See "Valuing Financial Services Firms" by Aswath Damodaran for more information on this topic.*

"fair" free cash flow multiple is 20x (see table). If the investor reduces his discount rate by 2%, the multiple expands to 33.3x, a two-thirds gain.

1 / (Required return – Growth rate) = Cash flow multiple
Example I: Normal assumptions 1 / (10% - 5%) = 20x
Example II: Reduce required return by 2% 1 / (**8%** - 5%) = **33.3x**

The future cash flow stream of the business hasn't changed. The investor is simply willing to pay a higher price for those cash flows. He has lowered his standards because of scant investment alternatives. We see two fallacies in this logic. First, the investor is implicitly assuming low interest rates are permanent. This has not been true throughout history. Nevertheless, we can appreciate the argument that the Fed will do everything in its power to suppress rates because the U.S. government and economy cannot afford higher borrowing costs without experiencing a painful adjustment. No one wants to be blamed for a recession, even if the associated cleansing of distortions in the system prevents a greater economic calamity down the road.

The second, and less discussed, problem with saying that low interest rates warrant high stock prices is that the other element of the valuation formula is being ignored. Investors lower their required returns, but they typically leave growth rates intact. Economic growth is not what it used to be. In spite of unprecedented monetary stimulus, the U.S. has experienced the weakest post-recession recovery since World War II. The reason the Fed has been able to keep risk-free rates near zero for almost 7 straight years without stoking inflation is because the economy has sputtered, with companies posting feeble organic revenue growth. Corporations will face headwinds in growing their future cash flows because the multi-decade tailwind of falling interest rates, tax rates, and production costs is probably over.[2]

Example III: Parallel 200 bps shift 1 / (10% - 5%) = 20x 1 / (**8% - 3%**) = 20x

Investors can't have it both ways. If low interest rates are permanent, they arguably should be reflected in both components of a valuation multiple. There is no change in valuations from a parallel shift downward in required returns and growth rates. The multiple stays the same. Stock prices then become driven by changes in earnings and cash flows. Aggregate earnings for small caps are no higher now than they were 10 years ago, yet stock prices have increased significantly.[3] This imbalance seems unlikely to persist.

For the three months ending September 30, 2015, the Intrepid Small Cap Portfolio (the "Portfolio") fell 3.89%, net-of-fees, compared to an 11.92% drop in the Russell 2000. The Portfolio benefited from its high cash position, which ended the quarter at 68% of assets. The Portfolio's performance during the first half of 2015 was below our expectations, as we suffered losses on commodity names (both precious metals and energy) and one important non-commodity holding. However, the Portfolio significantly outperformed the Russell 2000 Index as the market's downturn gained steam in August and September.

We bought two new securities during the third quarter, Silver Wheaton (ticker: SLW) and Cubic Corp. (ticker: CUB). Silver Wheaton replaced two small positions in mining companies that we sold for a tax loss. We view this swap as an upgrade in quality for comparable value. Streaming and royalty companies are producing substantial cash flow in the current low metals price environment, while many miners are not profitable. Over the past 2 years, Silver Wheaton's share price has fallen by half—as much as the Junior Gold Miners ETF (ticker: GDXJ). In contrast, the shares of Silver Wheaton's streaming and royalty peers Franco-Nevada (ticker: FNV) and Royal Gold (ticker: RGLD) are roughly at the same level they were 24 months ago.

Silver Wheaton is currently undergoing a tax dispute with the Canada Revenue Agency, which claims the company owes hundreds of millions in back taxes and penalties. Silver Wheaton created offshore subsidiaries to collect cash flows from its streaming arrangements on mines located outside of Canada. The Canadian government believes the company should pay taxes on these profits. Management thinks otherwise and plans to fight the claims. In our valuation, we believe we have assumed a worst case outcome for this dispute.

2 *"Playing To Win: The New Global Competition For Corporate Profits." McKinsey Global Institute. September 2015.*

3 *According to Bloomberg, GAAP EPS for the Russell 2000 were $16.81 in 2005 and $14.67 for the trailing twelve months ending September 30, 2015.*

Silver Wheaton is trading for 12x free cash flow versus 25x and 19x for Franco-Nevada and Royal Gold, respectively. The firm's multiple would still be significantly lower than these comps even if you neutralized tax rate differences. The vast majority of Silver Wheaton's attributable production base comes from mines in the lowest quartile of production costs. Ignoring any future acquisitions, the company's existing streams and royalties will create growing production volumes through 2019. Collectively, Silver Wheaton and Sandstorm Gold (ticker: SAND) account for 3.5% of the Portfolio's assets. We believe these holdings are cheap at spot gold and silver prices and also may help defend the value of the Portfolio against further desperate QE actions by the Fed.

During the quarter, we also established a position in Cubic Corp. Cubic is the world's leading provider of automated fare collection systems for mass transit, with installations including Chicago, London, New York, and Sydney. The company estimates it has an 80% domestic and 40% global market share. We think there are major advantages in being the incumbent when transit contracts come up for bid roughly every 10 years. In fact, on the company's last 2 major contract wins, in Chicago and London, only one other bidder besides Cubic reached the final stage. Cubic believes it is the industry's only full service provider, integrating hardware, software, and services. Generally, competitors must form consortiums, and as the head of London's transit system wrote, *"…the requirement for end to end systems integration, and providing the associated levels of indemnity, may work against consortia, particularly if they have no track record."* Cubic has a track record dating back to the 70s for major transit system implementations.

Cubic is also the market leader in air and ground combat training systems for defense applications. During the past few years, the company's defense business has been negatively impacted by troop withdrawals from combat zones. We do not expect this to change anytime soon. However, the profitability of Cubic's transportation segment has been distorted by unusual factors, including the recognition of significant upfront expenses without concurrent offsetting revenue on a major contract with Chicago. Cubic is trading for 11x free cash flow. Shares are at the same level they were 5 years ago. We believe Cubic's underlying earnings power has grown over this period as it has extended its dominance in fare collection and has increased the recurring portion of its revenue stream.

The Portfolio's largest detractors in the third quarter were Unit Corp. (ticker: UNT), Dundee Corp. (ticker: DC/A CN), and Silver Wheaton.[4] None of these was a large position for the Portfolio. Unit's stock has been clobbered by falling oil and natural gas prices. The shares have declined more than many E&Ps with higher leverage, like Chesapeake Energy (ticker: CHK). Unit had minimal commodity hedges going into the downturn, which has pressured its recent cash flow more than better-hedged peers. However, Unit also possesses one of the industry's better balance sheets. For competitors, hedges that locked in high oil prices are rolling off. As a result, the cash flows of most E&Ps will soon be on equal footing to Unit with regard to hedges. At that point, it will be apparent that Unit's leverage metrics are below most small and mid cap E&Ps. Unit is a unique energy business because it also has contract drilling operations and a midstream division. The assets comprising these segments provide extra levers of liquidity in the event that oil prices stay lower for longer. In such a scenario, we believe that most other comparably-sized E&Ps will have balance sheet troubles well before Unit. Although we remain concerned about how the declining health of the global economy could impact near-term energy demand, domestic oil production is decreasing. We anticipate an eventual rebound in prices. We believe Unit's shares will recover sharply.

Dundee Corp. is a different animal than the rest of the Portfolio's investments. It is a holding company with significant exposure to commodities and real estate. The financials are messy and take considerable time to analyze properly. Most of the company's subsidiaries are in the investment stage and are not generating cash flow. We purchased Dundee last year at a large discount to its net asset value. Since then, Dundee's NAV has declined because of weakness in commodities and also reductions in the market value of Dundee's sizable investment portfolio. However, Dundee's stock price has fallen even more than its NAV.

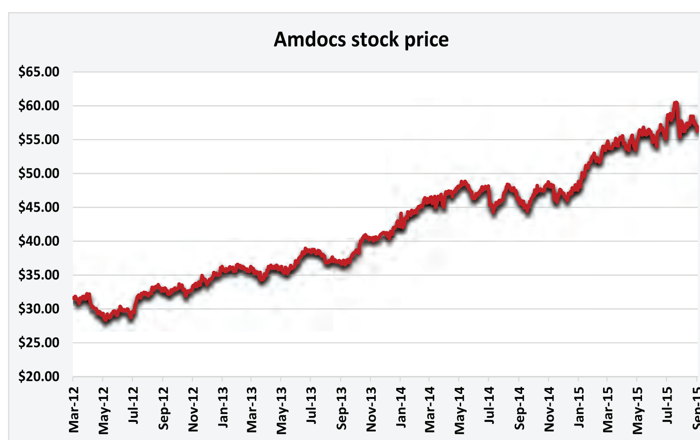
Dundee's CEO David Goodman has only been in his position for one year, and he is working to shift the business away from commodities and toward more predictable wealth management revenue. Mr. Goodman previously served as the CEO of DundeeWealth, which he helped grow into one of Canada's largest independent money managers before it was sold to Scotiabank in 2011 for CAD $3.2 billion. He's attempting to repeat that success, now that non-competes have expired. It won't be easy. Nevertheless, Mr. Goodman is committed to streamlining Dundee to reduce its NAV discount. In his latest shareholder letter, he wrote, *"There are a couple of historical examples of Canadian companies that have removed their significant holding company discounts. They did so*

4 *Contribution analysis includes dividends and was performed on a currency neutral basis, since the Portfolio aims to hedge foreign currency price risk*

by increasing the predictability of the company's cash flow, the transparency of the business and creating ongoing fee generating revenue." Dundee is trading today at approximately 40% of tangible book value. We believe book value overstates fair value for some of Dundee's assets. Nevertheless, if we marked down to zero all of the company's resource-oriented investments (energy, agriculture, and precious metals), we believe the resulting valuation is still above where the stock is currently priced. It's not pretty, but Dundee looks like a buy to us.

The Portfolio's top gainers in the third quarter were Ingram Micro (ticker: IM) and Amdocs (ticker: DOX), which were up modestly in a tough market climate. Both are long-term holdings and good examples of companies that reliably compound intrinsic value. Ingram is the world's leading IT distributor. It requires substantial working capital in the form of inventory and receivables. We purchased Ingram in 2012 at approximately a 20% discount to its tangible book value and a larger discount to our estimate of intrinsic value. The company has historically earned a low double digit return on tangible equity, suggesting that Ingram should trade at a premium to book value.[5] Over the past 3 years, Ingram has shifted toward higher-return businesses. Margins and earnings have expanded, and management forecasts additional improvement. While the valuation gap for Ingram has largely closed, the company's balance sheet provides a valuation backstop not possessed by most companies.

Amdocs has delivered a steady stream of free cash flows since we purchased the stock in the spring of 2012. The firm is the world's leading provider of billing software and services to communication companies. Amdocs serves the industry's top providers such as AT&T, Vodafone, and Bell Canada. Three quarters of revenues are recurring, and Amdocs has deeply entrenched positions with customers. The company is growing most quickly in less-developed markets, where carriers have made fewer investments in technology. Amdocs' stock has arguably been the easiest one for us to own over our holding period. The stock hasn't had major drawdowns, the business has performed well, and the intrinsic value has grown at a predictable pace. Most of our holdings are not this hassle-free. We think Amdocs is fully valued today. Typically, we sell out of positions once they reach fair value. In this case, we have retained a stake because the price still looks reasonable to us, with Amdocs trading for 12x trailing free cash flow (net of cash), and the valuation of this high-quality business has continued to grow.[6]



Source: Bloomberg

Perhaps the third quarter will turn out to be a brief negative blip in the market's inexorable ascent to new record levels. Plenty would call it a "healthy" correction. We would like to think that the price action during the past couple of months marks the beginning of a return to fundamentals. The futility of central bankers in steering economies is being exposed. Risky companies are facing higher borrowing costs. Acquirers' stock prices are once again falling when they announce M&A at all-time highs for equities.[7]

We have plenty of dry powder, and we welcome the chance to buy cheap small caps. The drop in stock prices this quarter moves us closer to that goal, and the moderate decline in the Portfolio's cash levels reflects our identification of incremental value. We believe that broad market valuations are still far closer to being wrong than right, but value is appearing in certain pockets of the market. For the first time in a long time, we feel like we own multiple names that could double before reaching our estimate of fair value. We also own a convertible bond yielding 11%, which is backed by assets worth twice as much as liabilities, in our estimation. These select opportunities give us hope that fairer prices are ahead. Like the sturdy camel, we can survive a long time on a little bit of value. Thank you for your investment.

5 *Assumes Ingram's ROE exceeds our required return*

6 *We value most of our holdings at higher multiples than 12x free cash flow, but we have applied a higher tax rate than Amdocs is currently experiencing to cushion against the possibility that offshore tax havens are challenged*

7 *http://www.wsj.com/articles/investors-give-cold-shoulder-to-deals-1443463297*

DISCIPLINED VALUE PORTFOLIO – COMMENTARY BY GREG ESTES, PORTFOLIO MANAGER

"It was the best of times, it was the worst of times..."

— Charles Dickens, *A Tale of Two Cities*

We do not believe we could find many people who would call today the best of times, and we are not likely to find too many that would call it the worst of times (although perhaps more pessimists than optimists), but the quote above does reflect the dichotomous nature of the market today. On the one hand, in this country, unemployment continues to shrink, payrolls have increased, consumer spending has improved, and GDP has grown to the point where the Federal Reserve has indicated we are ready for an interest rate hike—almost! However, now more than ever, there is an "on the other hand" – that infamous phrase of uncertainty. On the other hand, we see economic growth in China slowing and an accompanying concern that this slowdown will bleed over into the global economy. We see a Chinese stock market dropping precipitously from an incredibly lofty level, which has led nervous Chinese authorities to ban larger shareholders of Chinese stocks from selling. We see a long-in-the-tooth U.S. bull market that has been going strong for over six years – the third longest bull market in history so far. We see global mergers and acquisitions hitting $2.6 trillion in the third quarter alone, with the year 2015 heading to beat the record set in 2007 of $4.29 trillion.[1] We see the difference between Standard & Poor's 500 Index members' GAAP (Generally Accepted Accounting Principles) EPS (Earnings per share) and non-GAAP EPS getting larger. This is a sign that companies are finding ways to adjust their relatively poor earnings to appear better than they actually are by excluding such things as pension losses or restructuring costs. As a matter of fact, the S&P 500 showed growth in non-GAAP EPS for the first six months of 2015 versus the first six months of 2014, but on a GAAP basis, earnings per share for the S&P 500 was down 13% over the same time frame.[2] All of these signs lead us to see it as a tale of two markets. And we think that these two markets – one upbeat and optimistic, the other fearful and negative – will lead to heightened volatility.

For the quarter ended September 30, 2015, The Intrepid Disciplined Value Portfolio ("the Portfolio") fell 6.58%, net-of-fees versus the S&P 500 Index's drop of 6.44% and the Russell 3000 Index's decline of 7.25%. For the last twelve months, the Portfolio fell 3.05%, net-of-fees, versus 0.61% for the S&P 500 and 0.49% for the Russell 3000. Bear in mind that the fourth calendar quarter of 2014 was a large positive return for the broad equity markets. On a year-to-date basis, the Portfolio returned -5.21%, net-of-fees, compared to the S&P 500's return of -5.29% and the Russell 3000's return of -5.45%.

In general terms, the market selloff was fairly broad, although some industries were hit harder than others. Within the Portfolio, energy and precious metals had the most negative impact, and two of our worst performers in the quarter were Unit Corp (ticker: UNT), a North American driller, and gold miner Newmont Mining (ticker: NEM). Rounding out the bottom three was one operating business, Teradata Corp (ticker: TDC), which posted disappointing earnings results relative to market expectations. More of TDC's corporate clients are delaying their purchases of hardware to upgrade their data warehouse systems, particularly the company's financial clients. The delay in TDC's turnaround, combined with an increasingly impatient market, led to a sharp sell-off in shares.

On the other side of the equation, there were not really any winners, just share prices that held up better than most. One exception may be Quarto Group (ticker: QRT LN), the UK-based publisher, which has posted some very impressive results. We tip our collective hat to Ben Franklin, portfolio manager of the Intrepid International Portfolio, who discovered this idea. Take a bow, Ben! Rounding out the top three contributors were Amdocs (ticker: DOX), a stable billing service provider to cable and phone companies, and Microsoft Corp (ticker: MSFT).

The Portfolio ended the quarter with a cash level of 55.8%. This increase from last quarter is somewhat misleading, because we have engaged in some tax loss sales which temporarily increased the cash position. This increase was partially offset by our purchase of a new idea that has been on the radar for a while: Symantec Corp (ticker: SYMC). We have had a valuation in mind

1 *Lachapelle, Tara. "M&A's Fiorina Moment: Tara Lachapelle." Bloomberg View. 30 Sep. 2015.*

2 *Ro, Sam. "Profits aren't actually growing- companies are just fudging the numbers more than usual." Business Insider. 17 Aug. 2015.*

for this security for over a year, but until recently the price was simply above where we were comfortable paying. Back on August 11th, Symantec announced that it would sell its Information Management business, Veritas, to a group of private equity investors including Carlyle Group and the Singapore Sovereign Wealth Fund (GIC) for $8 billion in cash. However, Symantec will only net $6.3 billion after taxes. This is due to the "magic" of transfer pricing within subsidiaries. The idea is that a firm can minimize its tax burdens in higher tax domiciles like the U.S. by structuring prices between subsidiaries so that the business units in lower tax domiciles (like Ireland) earn more of the profits. However, engaging in this transfer pricing left a large unrealized tax bill for Symantec's Veritas unit that it must pay after the sale. Needless to say, the market was not happy with the arrangement. Many investors would have preferred a tax-free spinoff of Veritas. In our opinion, however, you cannot get something for nothing, and knowing that there was an embedded tax burden within Veritas would have meant the value on the spinoff would likely have been lower. Regardless, the remaining business has a nice operating margin above 30%, and we believe the stock price now trades below its intrinsic value. Sometimes, it takes a while before we find an attractive discount, but we believe we have found one in this case.

The average discount within the invested portfolio is 18%, which is our internal measure that examines our intrinsic valuation for each individual stock in comparison to its stock price. Again, due to the market's decline in the quarter, this average discount widened compared with the last quarter. If this market volatility keeps up, we would grow more confident that we can deploy more cash for new opportunities. We are not sitting still, however; we remain vigilant in looking for new investment ideas. We thank you for your trust in our process.

INCOME PORTFOLIO – COMMENTARY BY JASON LAZARUS, PORTFOLIO MANAGER

Global markets finally experienced some long-awaited volatility in the third quarter ended September 30, 2015, but the sources of the volatility were not the result of crises in Greece or Puerto Rico that we discussed last quarter. Shortly after completing our second quarter letter, Greek Prime Minister Tsipras conceded defeat and bowed to lenders, which ended a standoff that could have ended in Greece's exit from the European Union and essentially signaled "all clear" to the markets, at least temporarily. Meanwhile, panic selling took hold in Chinese markets, which had been falling for several weeks after a spectacular run in the first half of the year. The Chinese government assumed the role of market savior, as is fashionable for governments to do these days, but undertook some actions that even the world's most accommodative governments would not. These actions included, among others, 1) allowing more than half of the 2,800 companies listed on the stock markets to halt their shares, 2) instituting a ban on selling for shareholders owning more than 5% of a company's outstanding shares, 3) actively trying to persuade citizens to buy stocks, and 4) threatening to arrest short sellers.

The measures were effective initially. China's markets were relatively stable through mid-August (except for the 8.5% one-day drop in late July), before crashing again in late August. On August 24th and 25th, the Shanghai index lost 8.5% and 7.0%, respectively. U.S. investors took notice. The result was two of the most volatile trading days in the U.S. in years. The Dow Jones Industrial Average's intraday decline of more than 1,000 points was the largest in its history. The market volatility surely was a factor in the Federal Reserve's decision to keep short-term rates at zero. While the Federal Open Market Committee indicated the domestic economy is improving, it specifically cited "recent global economic and financial developments" in its September statement.

After a somewhat muted reaction to the Greek turmoil, high-yield bonds could not shake off the nervousness in the global equity markets. The BAML High Yield Master II Index (the "Index") tumbled 1.8% in August and another 2.6% in September, contributing to a 4.9% loss in the quarter. **This marks the worst quarterly performance since the third quarter of 2011 when markets panicked during the U.S. Treasury debt downgrade.** The lowest-rated issues suffered the most, particularly those in the energy sector. West Texas Intermediate crude oil resumed its decline and eventually hit a multi-year low of $37.75 before settling around $45/barrel. As a result, the BAML US High Yield Energy Index fell a whopping 16.1% in the quarter, with many issues sinking 50% or more. Market participants have mostly abandoned the hope of a V-shaped

recovery in oil prices. At prices below $50/barrel, the vast majority of high-yield energy companies have unviable business models and will need to restructure. The carnage was not just limited to energy companies as it had been in the last few quarters. Some heavily indebted telecom businesses also suffered large price declines, including wireless provider Sprint and cable firm Windstream. Gainers were scarce in the high-yield space.

The Intrepid Income Portfolio (the "Portfolio") posted a good relative performance, although the Portfolio was still in the red with a loss of 2.18%, net-of-fees. The Portfolio was buffered by our high cash position. Additionally, security selection helped our relative performance. In our last letter, we noted that many of our energy holdings were the largest contributors in the second quarter, and we explained our reasons for selling some of these positions. We continued to reduce our energy exposure in the third quarter by exiting our position in Northern Oil & Gas 8% due 6/01/2020 (ticker: NOG). The bonds held up relatively well as oil prices cratered in August, unlike many of the company's peers in the exploration and production (E&P) sector. The bonds had an asymmetrically negative return profile when considering oil prices at that time. We accepted a loss on the position. The bonds were the largest detractors in the quarter.

The second largest detractor, EZCORP 2.125% convertible bonds due 6/15/2019 (ticker: EZPW), was again a material detractor. EZCORP has some exposure to gold through its pawn operations, so lower gold prices probably weighed on the stock and bonds somewhat. However, the company's bonds are trading at levels that suggest a reorganization or bankruptcy will be needed. We have discussed the company is past letters, and our positive view on the credit quality remains unchanged. We believe EZCORP is far from distressed.

Lastly, our position in Alamos Gold 7.75% due 4/01/2020 (formerly AuRico Gold) was a material detractor. Alamos is a small-cap gold miner that recently merged with AuRico Gold. Gold prices collapsed early in the quarter along with many other commodities, which significantly pressured equity and bond prices of most gold miners. Despite lower precious metals prices, we believe the mines owned by the combined company will produce strong returns. Furthermore, the new Alamos has a much better balance sheet than AuRico had on its own.

While the pullback in high-yield bonds was mostly limited to more levered credits and businesses operating in commodity industries, we were able to deploy some of the Portfolio's cash into new ideas. The Portfolio took positions in three new high-yield bonds. With the recent market volatility we have regularly been asked if we are finding many bargains to put our cash to work in. While the highest-yielding bonds are mostly concentrated in commodity sectors, we are beginning to see some more attractive yields in our "core" universe, which generally consists of stable businesses in mature industries. This quarter's purchases are reflective of the types of credits we are seeking. If high-yield prices continue falling, we believe the Portfolio's cash position will decline further. Thank you for your investment.

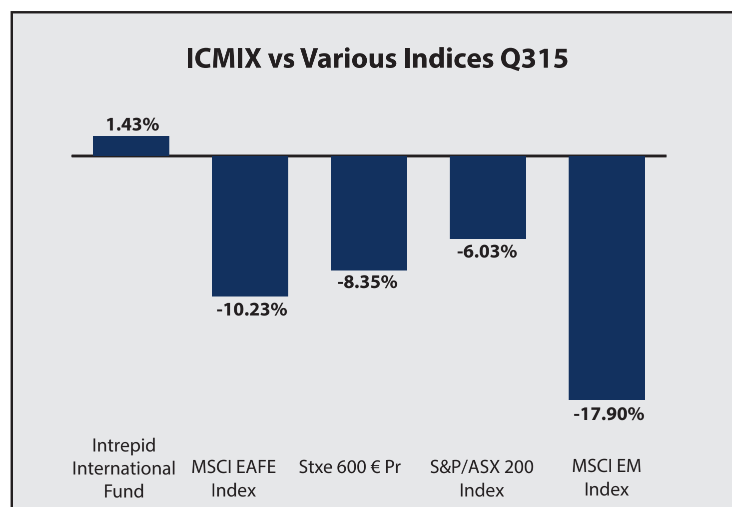
INTERNATIONAL PORTFOLIO – COMMENTARY BY BEN FRANKLIN, PORTFOLIO MANAGER

"Skate to where the puck is going to be, not where it is."

— Wayne Gretzky

International indices took a beating during the third quarter of 2015, while the Intrepid International Portfolio (the "Portfolio") increased 1.53%, net-of-fees. The MSCI EAFE benchmark fell 10.23%, while emerging markets took it on the chin with a decline of 17.90% as measured by the MSCI Emerging Markets index. The third quarter of 2015 was marked by turbulent markets across the globe coupled with a myriad of potential explanations that have all been discussed at length in news outlets: blame it on Greece, blame it on China, potential interest rate increases caused turmoil, interest rates didn't increase which caused turmoil, etc. These stories have kept many preoccupied and scrambling to figure out what is coming next. What we are focused on, however, is keeping our head down and analyzing the underlying fundamentals of businesses. This does not mean we are ignoring the news – like Tom Brady and his ~~inflated ego~~ deflated footballs, we are "generally aware."

However, we do not have any edge betting on outcomes of large macro events and thus limit our time and energy rummaging through the mountains of economic data.



Source: Bloomberg

We believe this different approach can produce different results than the indices. The last couple of letters have explained this, and this quarter was no different. While the indexes were bleeding, we managed to make money in the quarter. Most of our investments today are in small companies across the globe. Many academics and other professionals will warn about the risk of such investments, but as this quarter highlights, our process can produce profitable returns even in down markets. We believe investing with a "margin of safety" limits risk. In this environment, we have not been able to find many larger companies with a wide enough estimated margin of safety and have thus looked elsewhere. We are happy with the level of risk we have taken and believe this focus on the downside is what helps us outperform in these types of environments.

The top contributors during the quarter include Pacific Brands (ticker: PBG AU), Vision Eye Institute (ticker: VEI AU), and Balda AG (ticker: BAF GR). Pacific Brands is a new position, Vision Eye Institute benefitted from a bidding war for the company, and Balda is in the process of selling all of their operating businesses. We own an even larger position in Balda today, which is discussed in more detail below. The top detractors include Dundee Corp (ticker: DC/A CN), Coventry Group (ticker: CYG AU), and Corus Entertainment (ticker: CJR/B CN).

Pacific Brands is an Australian firm we have followed for a long time, but have never owned. They have historically owned many different brands, some of which we believe were of lower quality. Additionally, they were saddled with a large debt load. They have been pruning the business and recently sold off a large division, using the transaction to reduce debt. What's left is a few simple, market-leading brands. The most prominent is in their underwear segment, where they have the number one market share in their brand Bonds. The sale of a large division muddled the picture of the underlying firm, and may have made it difficult for other investors to understand. We dug in deep and found a simple business with great economics and a much improved balance sheet. The share price quickly rebounded once results for the underlying business were released and the market had more information about what the new business would look like. We have held on to much of our position, as we feel it is the type of business that will compound value over time – the type of business we would like to own for the long run.

A bidding war for Vision Eye Institute boosted the shares during the quarter. The company is Australia's largest provider of ophthalmic care, operating clinics and surgery centers throughout eastern Australia. First, a smaller company by the name of Pulse Health (ticker: PHG AU) attempted to acquire Vision Eye Institute with an all-equity deal for what amounted to a price of AUD 0.88 per share. This put the CEO-less company in play, and shortly thereafter Chinese company Jangho (ticker: 601886 CH) bought a 20% weight in the company at a price of AUD 0.94 per share, causing further confusion. Finally, Jangho went public with an offer of AUD 1.10 per share. As the stock rose to nearly that price, we exited the position.[1]

Balda benefitted from announcing the sale of their entire operating business. The operations that are potentially being sold make plastics for several industries, including dosing devices for the healthcare sector. We were never in love with the business, but the company is sitting on a mountain of cash. Historically, we viewed the investment as a discount to cash and assumed we got the operating business for free. But now that they are selling the operations for over €60 million, we are left with a much more interesting situation. When buying a stock at a discount to cash, the discount can remain for long periods

1 As of 9/30/2015, AUD = USD 0.7018

of time, resulting in a slow deterioration from inflation. However, when the company is led by shareholder-friendly managers, we believe this valuation gap has a higher probability of narrowing. In this case, that has happened so far. Due to the company being a larger weight than we would ever expect in our portfolio, we'd like to provide more detail on our investment.

Balda had approximately €3.35 per share in cash and term deposits as of their 6/30/2015 balance sheet date, compared to a share price of €3.13 as of 9/30/2015. Additionally, the company received an offer for their operating business of roughly €1 per share. This alone provides an attractive investment opportunity in our opinion. However, the deal gets sweeter as they are proposing a dividend of €2.00 per share. Of this proposed dividend, €0.90 is expected to be a return of capital, according to management. This large dividend will reduce our position size considerably, requiring us to have a large weight today if we want an adequate weight post-divided. Thus, assuming the dividend is paid out, our 15% weight as of 9/30/2015 will shrink to a weight between 5% and 6%. Like Wayne Gretzky, we plan to "skate to where the puck is going to be, not where it has been." This is the reason for the large position size today. Management has stated they expect net assets of the firm post-sale and post-dividend to be between €2.20 and €2.40 per share. After removing the large dividend, the market cap shrinks to only €67 million, or about *half* of the net assets that management expects the company to have. The company plans to invest the resulting cash, to which they have stated it "can be deployed for new, high yielding investments."[2] Additionally, they have stated, "The goal is to guarantee that the group has a solid cash flow."[3] While these sound like generic goals to us, the picture gets clearer after management stated they will have €50 million in tax loss carryforwards post sale. We think the cash would be well suited for a stable cash flow business whereby they have a high likelihood of utilizing these tax losses.

In Euros (€)	per share	Share Price (9/30/2015)	% of share price
Approx. cash & term deposits	3.35	3.13	107%
Est. net selling price of op. bus. per share	1.00	3.13	32%
Total net assets	4.35	3.13	139%
Proposed dividend	(2.00)	(2.00)	
Net assets post dividend	2.35	1.13	208%

As of 9/30/2015, € = $1.1177 source: Balda Group, Intrepid

Dundee, the quarter's top detractor, is a holding company that trades at a significant discount to its net asset value ("NAV"). A large portion of the subsidiaries are in commodities and real estate. Many of their holdings have fallen in market value; however, the fall of the parent company's stock price has outpaced the deterioration of the underlying holdings. The company's CEO has openly discussed increasing transparency of the company to alleviate the large holding company discount.

Coventry Group reported unimpressive earnings, sending the stock down. Like Balda, we are buying the stock at what we believe is a discount to the net assets on the books, and have given no value to their largest operating subsidiary. Unlike Balda, this subsidiary is currently draining cash. The company's turnaround strategy includes tangible cost-cutting initiatives. We believe these initiatives will stop the bleeding.

Corus continues to weigh on results. The firm released poor results in July. Advertising revenue for the media company has been weak despite strong ratings on their TV networks. In spite of the poor results, the company produces strong cash flow and pays much of it out in a dividend. We believe the investment is still trading at a discount to our estimated intrinsic value.

While this is a long journey we are on, we were pleased with our results during the quarter. We've touted our small size as an advantage. This allows us to purchase smaller securities that would not make sense to a larger portfolio, as they would not "move the needle."

Many of our holdings are trading at multiples much lower than what is available in larger securities, resulting in the Portfolio being labeled deep value. Some would suggest posturing a portfolio in small, deep value securities is riskier than buying large, well-known companies. In the current market environment we have disagreed with this, and while the indexes were losing money this quarter, we made some. Thank you for your investment.

2 2015 Balda Annual Report.
3 2015 Balda Annual Report.

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

This is the inaugural letter for the Intrepid Select Portfolio. The Select Portfolio (the "Portfolio") began trading on August 3, 2015. The Portfolio invests in small and mid cap securities, with a bias toward smaller capitalization names. Importantly, the Portfolio seeks to invest at least 90% of assets in all market environments, with cash comprising 10% or less of the Portfolio. This is a departure from Intrepid Capital's other portfolios, where cash levels can fluctuate based on the investment opportunity set. The launch of the Select Portfolio should not be interpreted as a shift in Intrepid Capital's views on current market valuations. In our opinion, most investable assets are expensive today.

The Select Portfolio is designed for investors who prefer to make their own choices about asset allocation and who are willing to own concentrated position sizes. With this Portfolio, shareholders receive exposure to Intrepid Capital's rigorous security selection process for small and mid cap securities. Typically, all of the securities held in the Select Portfolio will be owned by other Intrepid Capital portfolios, so you will find similar commentary in those letters. However, the position sizes are generally expected to be larger. For example, the top 10 holdings in the Select Portfolio as of September 30, 2015, comprised 52.3% of the Portfolio's assets. In comparison, the top 10 holdings in the Intrepid Small Cap Portfolio and Intrepid Disciplined Value Portfolio accounted for 27% and 25.9% of assets, respectively.

The largest holding in the Portfolio is the 2.125% convertible bonds of EZCORP, which mature in June 2019. The Portfolio had an 8.3% weighting in this security at the end of the third quarter. We believe Intrepid Capital is the top owner of these bonds, which are currently yielding in excess of 11%. EZCORP is the second largest operator of pawn shops in the U.S. and Mexico. The prices of EZCORP's public equity and debt have been adversely impacted by several issues, including declining gold scrapping profits, a shrinking payday loan business, and accounting problems at a Mexican subsidiary. The securities have also been punished for questionable actions by EZCORP's controlling shareholder. The bonds are trading at slightly over 70 and qualify as a "busted" convert, where the associated stock is so far below the conversion price that the equity option is treated as worthless. In our view, the bonds are trading well below what is justified based on the company's credit quality. EZCORP's tangible assets exceeded its liabilities by over 2x as of the last reported balance sheet. We also believe that EZCORP's competitors would be interested in the company's store base if EZCORP ever wanted to sell. On a transaction basis, we think the company's units are worth at least 250% of EZCORP's recourse liabilities, which includes our bonds. Although the Portfolio does not typically own convertible debt instruments, we feel that EZCORP offers a compelling, equity-like return for considerably less downside risk.

For the period from July 31, 2015 through September 30, 2015, the Intrepid Select Portfolio fell 8.09%, net-of-fees, compared to a 10.88% decrease in the Russell 2000 and an 8.36% drop in the S&P 500. We believe the securities held in the Portfolio held up better than the broader markets because our holdings have already been beaten down and are cheaper than the market in general.

The only new purchase the Portfolio made in the period was Cubic Corp. (ticker: CUB). Cubic is the world's leading provider of automated fare collection systems for mass transit, with installations including Chicago, London, New York, and Sydney. The company estimates it has an 80% domestic and 40% global market share. We think there are major advantages in being the incumbent when transit contracts come up for bid roughly every 10 years. In fact, on the company's last 2 major contract wins, in Chicago and London, only one other bidder besides Cubic reached the final stage. Cubic believes it is the industry's only full service provider, integrating hardware, software, and services. Generally, competitors must form consortiums, and as the head of London's transit system wrote, *"…the requirement for end to end systems integration, and providing the associated levels of indemnity, may work against consortia, particularly if they have no track record."* Cubic has a track record dating back to the 70s for major transit system implementations.

Cubic is also the market leader in air and ground combat training systems for defense applications. During the past few years, the company's defense business has been negatively impacted by troop withdrawals from combat zones. We do not expect

this to change anytime soon. However, the profitability of Cubic's transportation segment has been distorted by unusual factors, including the recognition of significant upfront expenses without concurrent offsetting revenue on a major contract with Chicago. Cubic is trading for 11x free cash flow. Shares are at the same level they were 5 years ago. We believe Cubic's underlying earnings power has grown over this period as it has extended its dominance in fare collection and has increased the recurring portion of its revenue stream.

During the truncated quarter, the Portfolio's largest positive contributors were Sandstorm Gold (ticker: SAND), Ingram Micro (ticker: IM), and Corus Entertainment (ticker: CJR/B CN). Sandstorm is the Portfolio's largest precious metals position. Having underperformed throughout most of 2015, Sandstorm's stock held up well throughout the market's tumult in August and September. Sandstorm is a streaming and royalty company that trades at a single digit multiple of free cash flow. After experiencing problems with a couple of key mining partners in recent years, Sandstorm's management has worked to upgrade the quality of the firm's counterparties. At quarter end, the Portfolio had a 7.2% direct exposure to precious metals from its investments in Sandstorm and Silver Wheaton (ticker: SLW). However, the Portfolio is also indirectly exposed to gold prices through certain other investments, like EZCORP. We remain comfortable with the Portfolio's precious metals exposure given our expectation that central bankers will continue to pursue aggressive, and in our view reckless, monetary policies.

Ingram Micro is the world's leading IT distributor. It requires substantial working capital in the form of inventory and receivables. The company has historically earned a low double digit return on tangible equity, suggesting that Ingram should trade at a premium to book value.[1] Over the past several years, Ingram has shifted toward higher return businesses. Margins and earnings have expanded, and management forecasts additional improvement. The net assets on the company's balance sheet provide a valuation backstop not possessed by most companies.

Corus Entertainment's stock experienced a slight rebound in price after its earnings-related decline in the prior month, before the Portfolio launched. Corus is one of the Portfolio's largest positions. The shares of this Canadian media company have been punished by advertising revenue shortfalls in addition to new regulatory policies for Canadian television broadcasters. We believe the company should be able to improve its advertising performance, given healthy ratings on Corus's TV networks. Additionally, we believe investors may be overestimating the negative impact that new, mandated a la carte network selection will have on leading broadcasters like Corus. We expect our thesis to be tested over the next 12 months. For now, Corus is trading at less than 10x free cash flow and sports an 8% dividend yield.

The Portfolio's greatest detractors during its first two months were Unit Corp. (ticker: UNT), Teradata (ticker: TDC), and Dundee Corp (ticker: DC/A CN). Unit's stock has been clobbered by falling oil and natural gas prices. The shares have declined more than many E&Ps with higher leverage, like Chesapeake Energy (ticker: CHK). Unit had minimal commodity hedges going into the downturn, which has pressured its recent cash flow more than better-hedged peers. However, Unit also possesses one of the industry's better balance sheets. For competitors, hedges that locked in high oil prices are beginning to roll off. As a result, the cash flows of most E&Ps will soon be on equal footing to Unit with regard to hedges. At that point, it will be apparent that Unit's leverage metrics are below most small and mid cap E&Ps. Unit is a unique energy business because it also has contract drilling operations and a midstream division. The assets comprising these segments provide extra levers of liquidity in the event that oil prices stay lower for longer. In such a scenario, we believe that most other comparably-sized E&Ps will have balance sheet troubles well before Unit. Although we remain concerned about how the declining health of the global economy could impact near-term energy demand, domestic oil production is decreasing. We anticipate an eventual rebound in prices. We believe Unit's shares will recover sharply.

Teradata had another rough earnings release, in which management verified that a rebound in its sales of data warehousing equipment will take longer than the market had initially anticipated. Essentially, companies are opting to delay capital expenditures for equipment that would expand or refresh their existing data warehousing structures. This is particularly true of TDC's clients within the financial industry, which accounted for 31% of TDC's 2014 revenue. While the company is showing

1 Assumes Ingram's ROE exceeds our required return

increasing customer wins, these customers tend to be making smaller purchases. After the release, many investors' patience wore out and the stock dropped from the mid-$30s to around $30. However, we believe that purchasing can only be delayed for so long, and that there will come a time when clients can no longer avoid upgrading their data warehouses and/or other data platforms.

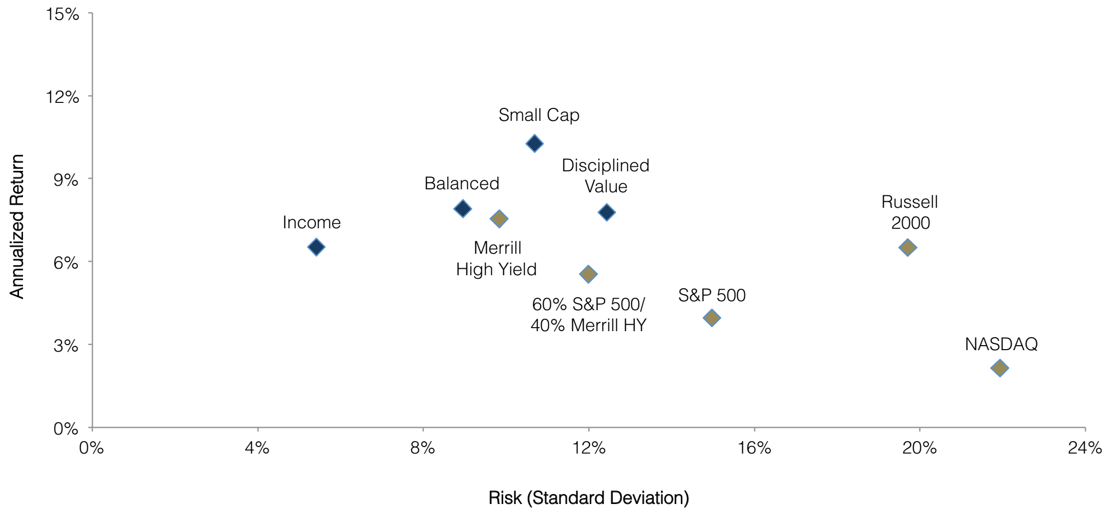
Dundee Corp. is a different animal than the rest of the Portfolio's portfolio. It is a holding company with significant exposure to commodities and real estate. The financials are messy and take considerable time to analyze properly. Most of the company's subsidiaries are in the investment stage and are not generating cash flow. Dundee's NAV has declined because of weakness in commodities and also reductions in the market value of Dundee's sizable investment portfolio. However, Dundee's stock price has fallen even more than its NAV.

Dundee's CEO David Goodman has only been in his position for one year, and he is working to shift the business away from commodities and toward more predictable wealth management revenue. Mr. Goodman previously served as the CEO of DundeeWealth, which he helped grow into one of Canada's largest independent money managers before it was sold to Scotiabank in 2011 for CAD $3.2 billion. He's attempting to repeat that success, now that non-competes have expired. It won't be easy. Nevertheless, Mr. Goodman is committed to streamlining Dundee to reduce its NAV discount. In his latest shareholder letter, he wrote, *"There are a couple of historical examples of Canadian companies that have removed their significant holding company discounts. They did so by increasing the predictability of the company's cash flow, the transparency of the business and creating ongoing fee generating revenue."* Dundee is trading today at approximately 40% of tangible book value. We believe book value overstates fair value for some of Dundee's assets. Nevertheless, if we marked down to zero all of the company's resource-oriented investments (energy, agriculture, and precious metals), we believe the resulting valuation is still above where the stock is currently priced. It's not pretty, but Dundee looks like a buy. Thank you for your interest in our Portfolio.

RISK ADJUSTED RETURNS

TRAILING 15 YEAR RISK / RETURN

SEPTEMBER 30, 2000 TO SEPTEMBER 30, 2015

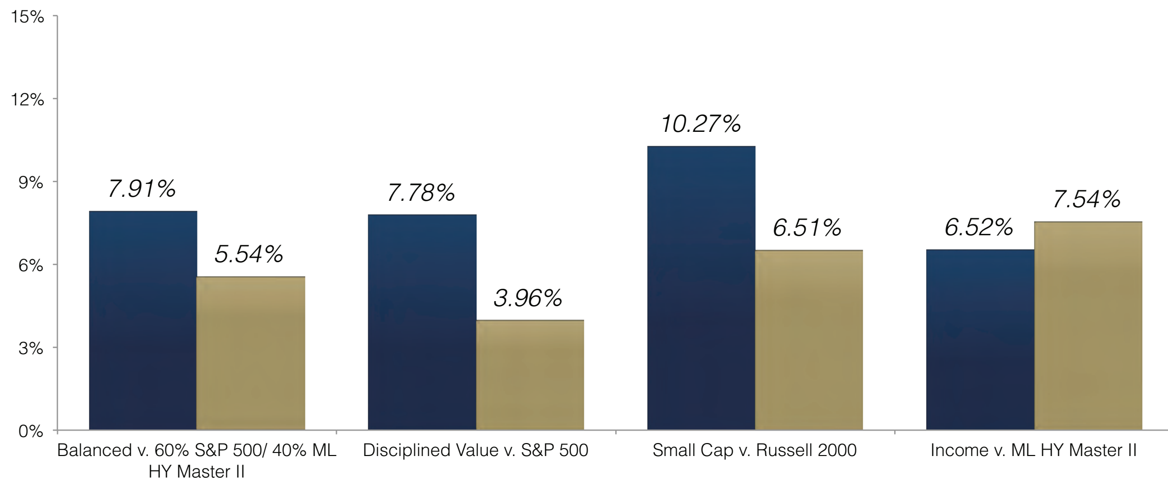


- Past performance is no guarantee of future results. Intrepid composite returns are presented net of investment advisory fees and all returns are presented annualized for the 15-year period ending September 30, 2015. Returns reflect the reinvestment of dividends and other earnings. The volatility of 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

SEPTEMBER 30, 2000 TO SEPTEMBER 30, 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 September 30, 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.