Intrepid All Cap Fund

Discipline Makes the Difference.

4th QUARTER 2012 COMMENTARY

PERFORMANCE

Average Annualized Total Returns as of December 31, 2012

	Inception Date	3 Month	YTD	1 Year	3 Year	5 Year	Since Inception
Intrepid All Cap Fund	10/31/07	0.28%	10.51%	10.51%	8.65%	5.20%	3.93%
S & P 500 Index		-0.38%	16.00%	16.00%	10.87%	1.66%	0.64%
Russell 3000 Index		0.25%	16.42%	16.42%	11.20%	2.04%	0.95%

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

Per the Prospectus, the Fund's annual operating expense (gross) for the Investor Shares is 1.70%. The Fund's Advisor has contractually agreed to waive a portion of its fees and/or reimburse expenses such that the total operating expense (net) is 1.41% through 1/31/13. In addition, the Fund's Advisor has contractually agreed to waive a portion of its fees and/or reimburse expenses such that the total operating expense, excluding Acquired Fund Fees and Expenses, (expense cap) does not exceed 1.40% through 1/31/13. Otherwise, performance shown would have been lower.

January 4, 2013

Dear Fellow Shareholders,

As we write this letter, there is word that an agreement will be struck in Congress to avoid the so-called "Fiscal Cliff." This gave equity markets a bounce on the final day of the year. For the quarter ended December 31, 2012, the S&P 500 was down -0.38%, while the Russell 3000 Index was up 0.25%. The Intrepid All Cap Fund managed to gain 0.28%. Prior to that final day, the S&P 500 was down -2.04%, the Russell 3000 Index was down -1.44%, and the Intrepid All Cap Fund (the "Fund") was down -0.95%. With tongue planted firmly in cheek, we can all breathe a sigh of relief that the crisis has been averted.

But for all the ink spilled over the fiscal cliff, the solution is actually quite small and does not go very far in addressing the federal deficit, which is in the vicinity of $1 trillion per year, and the National Debt, which is over $16 trillion. The agreed upon bill will raise revenues by $620 billion over the next ten years, which is but a drop in the bucket compared to the level of overspending. Currently, deficit spending accounts for about 7% of GDP (Gross Domestic Product). Imagine if the government eliminated the deficit immediately. That 7% chunk of GDP would be gone, which would lead to a painful economic contraction. We believe that there is no easy way out of the current deficit and debt problem, but we as a nation must take the medicine of fiscal responsibility. From our point of view, the bottom line is this: whether more revenues are raised or spending cuts are enacted, we will be in for some economic pain, and in our view, this is not being properly factored into the market's analysis. Both the S&P 500 and the Russell 3000 are within 8% and 5%, respectively, of their all-time highs back in the fourth quarter of 2007. To us, that does not look like a market that is at all concerned about a potential contraction.

Although it appears less in the news, we also have the backdrop of the Federal Reserve's continuing quantitative easing program, which has been providing a continual flow of dollars into the market. Indeed, for the year, the S&P 500 Index was up 16.00%, while the Russell 3000 Index gained 16.42%. In comparison, the Intrepid All Cap Fund gained 10.51%. A primary cause for this disparity between the Fund and market indices is our cash level, which ended the year at 26.4% and remained elevated through most of the year. Our cash level is high due to our concern for the dearth of cheaply priced, quality investment opportunities.

We believe that our firm is unique because our value investment process does not change. Allow us to digress momentarily to discuss the core of our valuation approach, in which we view a business as a perpetual free cash flow generator. The basic formula to discount such a free cash flow stream is as follows:

$$\text{Firm Value} = \frac{(FCF\ (N)}{(k-g)}$$

In this formula, the value of the firm is simply the discounted stream of future free cash flow, which we attempt to normalize to adjust for the business cycle. Think of it this way: a firm in a recession may be producing free cash flow which is below its normalized level, just as a firm at the end of an economic expansion may be producing free cash flow much higher than its normalized level. We attempt to remove that cyclicality from our estimate. We divide this normalized free cash flow [FCF(N)] by the difference between the required rate of return, denoted as "k," and the growth rate of free cash flows, "g." In our valuations, we use required rates of return (also called discount rates) typically between 10 and 15%. Keep in mind that we are dealing with businesses, not Treasury Bills. Since there is risk inherent in any business, we believe that a relatively high discount rate is necessary. We use conservative growth rates- usually no more than 5% growth of free cash flows. The final result of this equation gives us what we believe is the intrinsic value of a firm.

Top Ten Equity Holdings	(% of net assets)
FTI Consulting, Inc.	4.2%
Bank of New York Mellon Corp.	4.0%
Molson Coors Brewing Co.	3.9%
Ingram Micro, Inc.	3.0%
Staples, Inc.	3.0%
Telephone & Data Systems, Inc.	3.0%
Dell, Inc.	2.9%
Bio-Rad Laboratories, Inc.	2.9%
Potlatch Corp.	2.9%
Microsoft Corp.	2.8%

Top ten holdings are as of December 31, 2012. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security.

If our intrinsic estimate is higher than the market's value of the firm, then that would be something of interest to us. Today, however, most of the ideas that we see are priced higher than our intrinsic value estimates, which leads us to avoid purchasing them. We attempt to use this process consistently, whether in periods of economic decline or boom, and it explains why we currently cannot find many investments that we consider attractive. In markets such as the one we have been experiencing for the past three years, we think one of two things could be occurring. The first possibility is that we have indeed reached a new paradigm in which risk premiums are permanently lower, which would mean discounting cash flows by a smaller k, which would in turn increase valuations of all firms. We reject this line of thinking. We do not believe that it is any less risky to operate a business today than it was five, ten, or thirty years ago. As a matter of fact, it might be riskier due to increased regulation. What we do have, however, is a Federal Reserve that is artificially attempting to lower risk premiums by forcing short-term rates to near-zero levels. This maneuver, however, is not permanent, and when it unwinds, we think it may cause many investors to sell their investments as their perceived required rates of return increase. Rising rates may make it seem to market investors that many ideas which at one time appeared to be cheaply priced are, as a matter of fact, expensive. A second possibility is that the market is using higher normalized free cash flows than we use. We think this is indeed happening. If cash flows are at a cyclical peak, we do not believe it makes sense to project growth from those lofty levels. If the market is doing this, it could explain why it sees so many stocks as values when we do not.

While most holdings in the Fund contributed positively to the total return for the year, there were a couple that hampered Fund performance. Bill Barrett (ticker: BBG), a natural gas and oil company, has seen its share price decline as free cash flows were further impacted due to higher capital expenditures. We think this capex may produce fruit in the future. In addition, we think the market unduly ties Bill Barrett solely to natural gas and overlooks the company's increasing amount of oil production. Please refer to the Intrepid Small Cap Fund section for further analysis.

In the case of Dell (ticker: DELL), the market appears to have abandoned the company. The PC cycle, in which corporations "refresh" their machines, has been extended due to continued economic uncertainty. This has caused weakness in desktop and laptop sales. Combine this with the growing voices of those who think that the marketplace will abandon PCs for tablets, and you get the extreme selloff that we have seen in shares of DELL. The latter claim is, we believe, one of the most overplayed stories of 2012. Yes, tablets are a technological innovation, but no, we do not believe that they will supplant laptops/desktops (as we write this from our trusty desktop). While tablets have great portability, they are, in our opinion, far less useful for productive purposes than for entertainment. Furthermore, consider that Dell is focused on corporate customers over retail consumers. As a matter of fact, less than 5% of Dell's operating income comes from consumers. The rest comes from businesses and the public sector. The business cycle for IT companies is at a trough, and PC sales have been impacted by it. We think that the market is incorrectly projecting that trough well into the future. Conversely, we believe that a likely catalyst for Dell in the coming quarters will be the release of Microsoft's new operating software, Windows 8. Dell is expected to generate more than $3.5 billion in operating income in fiscal 2013 on a market capitalization of $18.5 billion. We consider that a very attractive pre-tax yield.

The top two contributors to Fund performance for the year were financial firms: Bank of New York Mellon (ticker: BK) and Federated Investors (ticker: FII). For BK, a few things happened during 2012 that were viewed as positives. First, it settled legal action related to how it handles foreign currency trading. Second, the company has done a good job controlling expenses, which has led to an increase in operating margins. Finally, we have yet to see an increase in net interest margin, which is the spread the company earns between what it earns on its assets less what it pays for its deposits. That spread is at an all-time low due to the Fed's action to set rates near zero. We

believe rates will eventually move up, leading to an increase in the company's net interest margin. Our second contributor, Federated Investors, has seen its share price increase as the SEC became deadlocked over further money market fund regulation. In addition, the company paid a special dividend of $1.51 per share in November, which is a significant yield for a stock that traded in a range between $18.28 and $21.86 in the final three months of 2012.

One item that we wish to mention is a possible change in the name of the Fund. If done, there will be a few reasons for doing so. First, although we select investments which range in market capitalization from small cap to large, we do not think "All Cap" properly describes what we do at Intrepid. We have always considered our firm to have excelled in small to mid-cap investing, which tends to be less followed than the large cap equity market. And while the Intrepid All Cap Fund does invest in some large caps, we do not believe it would be likely that the Fund would predominantly invest in large cap stocks. To put it another way, the fund does not shift from one market cap segment to another based upon relative valuation differences. Rather, the fund was designed to have maximum flexibility in where it can select investments, while still realizing that our niche is in smaller, less followed businesses. Second, we believe that flexibility should also allow us to default to cash in times when we cannot find suitable investments. As it is legally interpreted, the naming convention for the Intrepid All Cap Fund implies a constraint on cash levels that we would prefer not to have. Finally, we might prefer to have a name for the Fund that better describes the discipline of our process instead of the size of the firms in which it invests. If a name change is made, all shareholders will be notified before it occurs.

At the end of the quarter, the average discount in the Fund was 12%. Every security held in the Fund can be compared against our corresponding calculated intrinsic value estimate. We mention this every quarter because it gives us some idea about the availability of discounts in the equity market. In long bull market periods, the number and scope of discounts becomes smaller. Conversely, in bear market periods, discounts may increase. This average discount is not of course a comprehensive gauge of the market, since it only shows what we think our investments are worth compared to their market prices. But we do like to compare our average discount today to where it has been historically to get a sense of how close to 'fair value' the Fund may be. Today, the average discount is closer to fair value than it has been in several years, which explains, in part, why our cash levels have remained elevated. We thank you for your confidence in our process, and we wish you a prosperous 2013.

Sincerely,

Greg Estes, CFA
Intrepid All Cap Fund Portfolio Manager

Mutual fund investing involves risk. Principal loss is possible. The Fund is subject to special risks including volatility due to investments in smaller and medium sized companies, which involve additional risks such as limited liquidity and greater volatility. The Fund is considered non-diversified as a result of limiting its holdings to a relatively small number of positions and may be more exposed to individual stock volatility than a diversified fund.

The Advisor believes that current market conditions warrant a temporary defensive position invested more in cash and cash equivalents and away from the requirement to invest at least 80% of its net assets in equity securities.

The S&P 500 Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. The Russell 3000 Index is an index representing the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market. You cannot invest directly in an index.

Market Cap is the market price of an entire company, calculated by multiplying the number of shares outstanding by the price per share. Free Cash Flow measures the cash generating capability of a company by subtracting capital expenditures from cash flow from operations. CAPEX is money spent to acquire or upgrade physical assets such as buildings and machinery.

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