Intrepid Income 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 Income Fund - Inv.	7/2/07	0.95%	5.82%	5.82%	5.49%	5.27%	4.95%
Intrepid Income Fund - Inst.	8/16/10	1.03%	6.09%	6.09%	-	-	5.79%
BofA Merrill Lynch High Yld Master II Index		3.18%	15.58%	15.58%	11.60%	10.01%	8.91%^

^Since Inception returns are as of the fund's Investor Class inception date. Since the inception date of the Institutional Class, the annualized return of the B of A Merrill Lynch High Yield Master II Index is 11.03%.

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 1.32% and for the Institutional Share class is 1.08%. 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 1.16% and 0.91% through 1/31/13, respectfully. 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 1.15% and 0.90% through 1/31/13, respectfully. Otherwise, performance shown would have been lower.

January 7, 2013

Dear Fellow Shareholders,

The high-yield market concluded 2012 with a bang. The Bank of America/Merrill Lynch High Yield Master II Index, which is comprised of more than 2,100 individual issues, tacked on an additional 3.18% in the quarter ending December 31, 2012. The asset class outperformed most equity indexes in the quarter and nearly matched equity performances in the full year. High-yield bonds have been one of the best performing asset classes of the last decade as the Federal Reserve's mission to bludgeon savers has forced investors to reach for yield in securities with higher credit and interest rate risk. However, the strong performance is an acclaim which we believe will not be repeated. Average prices recently topped $105 on $100 in par value, and yields on high-yield bonds are near all-time lows at around 6%. In general, we believe investors are not being compensated for the risks inherent in the asset class. As such, the Intrepid Income Fund (the "Fund") is more defensively positioned than at any other time in its history. We have been increasing the credit quality of the portfolio through security selection and higher cash balances. Additionally, we have elected to keep the Fund's duration short to help protect against adverse changes in interest rates. We simply do not believe the small incremental return offered by extending further out the yield curve is worth the increased interest rate risk. While this short-duration posturing may seem like we are making a macro call, the result is actually more a function of our process. It has been difficult to find high-yield securities that we believe are offering attractive absolute returns. As a result, the Fund's cash position has increased, which contributes significantly to the shorter maturity profile. As a reminder, we do not take a top-down approach when managing our cash position. The Fund's cash balance will always be a reflection of the opportunities we see available in the marketplace.

For the second consecutive quarter, Halfords Group (ticker: HFD LN) common stock was the top contributor to the Fund's performance. The U.K. auto parts and bicycle retailer reported decent earnings early in October, which sent the stock up significantly. We used this opportunity to exit the position and the British Pound forward contract that hedged the currency exposure. The top three bond contributors were Spartan Stores 3.375% convertible notes due 5/15/2027, EPL Oil and Gas 8.250% due 2/15/2018 (formerly known as Energy Partners Ltd.), and PetroQuest Energy 10.000% due 9/01/2017. Spartan surprised investors by announcing it would redeem the notes in early 2013 at a premium to par, rather than waiting for holders to utilize the put option that would require the company to repurchase the notes at par on 5/15/2014. The EPL and PetroQuest bonds performed similarly to the high-yield market as a whole, and constitute two of our larger positions, hence the positive contribution to the overall performance. There were no material detractors in the quarter.

Top Ten Holdings	(% of net assets)
Gibraltar Industries, Inc., 8.000%, 12/01/2015	4.51%
Bill Barrett Corp., 9.875%, 7/15/2016	4.06%
Thermon Industries, Inc., 9.500%, 5/01/2017	3.88%
Speedway Motorsports, Inc., 8.750%, 6/01/2016	3.83%
Spartan Stores, Inc., 3.375%, 5/15/2027	3.83%
PetroQuest Energy, Inc., 10.000%, 9/01/2017	3.62%
Smith & Wesson Holding Corp., 9.500%, 1/14/2016	3.46%
COTT Beverages, Inc., 8.125%, 9/01/2018	3.32%
Energy Partners, Ltd., 8.250%, 2/15/2018	2.90%
Ruby Tuesday, Inc., 7.625%, 5/15/2020	2.40%

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.

Those that have read our past letters are acutely aware of the ongoing redemption of our portfolio's bonds. The flood of funds into the asset class has resulted in an extremely favorable environment from the corporate treasurer's point of view. In the quarter ending December 31, 2012, four of our credits were called in their entirety, and one was partially called. These credits include several long-term holdings which we had large positions in, including Pep Boys 7.500%, Collective Brands 8.250%, and FTI Consulting 7.750%. We expect redemptions to continue absent a negative shift in the credit markets. We exited two positions in the quarter, including Halfords common stock, which was previously discussed. Additionally, we sold our Oshkosh 8.250% bonds due 3/01/2017 after activist investor Carl Icahn announced a tender offer for the common stock. In our view, the range of potential outcomes included situations that could have materially impaired the credit quality. The notes did not immediately sell off and we were able to exit the position. While Icahn did not win over Oshkosh stockholders, we believe the sale of the bonds is consistent with our goal, to limit the possibility of permanent capital impairment.

The Intrepid Income Fund's flexible investment mandate allows us to selectively reinvest the cash from these bond redemptions. We are not forced to put capital to work in overvalued securities. We will only commit capital when we believe the returns are compensating us well for the risks being borne. We had some success in finding such securities even among the current unfavorable environment, although our cash balance grew and now accounts for 47% of the Fund's assets, up from 39% at the end of September. We added four new credits to the Fund in the quarter, of which Cott Beverages 8.125% due 9/01/2018 and Scotts Miracle-Gro 7.250% due 1/15/2018 are the largest.

Cott Beverages is the world's largest producer of private label beverages. The company has a 60% market share in U.S. store-brand carbonated soft drinks and shelf-stable juices. Cott's operating history has been volatile in the face of rising raw material costs, since it takes considerable time to pass through input costs. However, we believe the company will continue to generate significant free cash flow and will manage the capital structure in a conservative manner. Cott's debt service ratios will likely improve when it retires the higher-cost 9.375% notes later this year. We expect our 8.125% notes due 9/01/2018 to be called in September of 2014, which should result in an attractive return for short-dated paper. The potential return increases with each longer call date.

Our purchase of Scotts Miracle-Gro bonds follows a similar thesis to the Cott purchase, where we put capital to work in a higher-quality business and expect the notes to be called within the next couple years. Scotts is a leading manufacturer of garden products including fertilizers, grass seed, potting soils and plant foods, and chemicals. The company controls a significant portion of most of the markets it participates in, up to 75% of total retail dollars in some product lines. Poor weather conditions and weak consumer spending have pressured the company's financials recently, but Scotts's credit quality is still very solid with leverage around 3.0x. Additionally, management has committed to reducing debt in the near term. We expect our 7.25% notes due 1/15/2018 to be retired in early 2014.

We conclude this letter with a new year's quote attributed to Michael Josephson, speaker and author on the topic of ethics. The author urges readers to "Approach the New Year with resolve to find the opportunities hidden in each day." While uncovering hidden investment opportunities was probably not the author's intent when he penned the quote, we believe it is synonymous with what we do here every day at Intrepid. We are working as diligently as ever to find undervalued securities on your behalf.

Sincerely,

Ben Franklin, CFA
Co-Lead Portfolio Manager

Jason Lazarus, CFA
Co-Lead Portfolio Manager

Mutual fund investing involves risk. Principal loss is possible. Investments in debt securities typically decrease in value when interest rates rise. The risk is generally greater for longer term debt securities. Investments by the Fund in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher rated securities. The Fund is non-diversified, meaning it may concentrate its assets in fewer individual holdings than a diversified fund. Therefore, the Fund is more exposed to individual securities volatility than a diversified fund.

Forward foreign currency contracts or other derivatives involve risk. Foreign currency exchange rates may fluctuate significantly over short periods of time. They generally are determined by supply and demand in the foreign exchange markets and relative merits of investments in different countries, actual or perceived changes in interest rates, and other complex factors. Currency exchange rates also can be affected unpredictably by intervention (or the failure to intervene) by U.S. or foreign governments or central banks, or by currency controls or political developments. Foreign investments generally pose greater risks than domestic investments.

The Bank of America Merrill Lynch High Yield Master II Index is Merrill Lynch's broadest high yield index, and as such is comparable with the broad indices published by other investment banks. You cannot invest directly in an index.

Duration is a commonly used measure of the potential volatility of the price of a debt security, or the aggregate market value of a portfolio of debt securities, prior to maturity. Securities with a longer duration generally have more volatile prices than securities of comparable quality with a shorter duration. Free Cash Flow measures the cash generating capability of a company by subtracting capital expenditures from cash flow from operations.

Opinions expressed are subject to change, are not guaranteed and should not be considered investment advice or recommendations to buy or sell any security.

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