Intrepid Small Cap Fund

Discipline Makes the Difference.

1st QUARTER 2013 COMMENTARY

PERFORMANCE

Average Annualized Total Returns as of March 31, 2013

	Inception Date	3 Month	YTD	1 Year	3 Year	5 Year	Since Inception
Intrepid Small Cap Fund - Inv.	10/3/05	4.47%	4.47%	8.08%	9.03%	13.40%	11.76%
Intrepid Small Cap Fund - Inst.	11/3/09	4.56%	4.56%	8.35%	9.29%	-	11.94%
Russell 2000 Index		12.39%	12.39%	16.30%	13.45%	8.24%	6.21%^

^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 Russell 2000 Index is 17.80%.

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 for 30 days or less. 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 1.45% and for the Institutional Share class is 1.20%. 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% and 1.16% through 1/31/14, 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 expenses, excluding Acquired Fund Fees and Expenses, (expense cap) does not exceed 1.40% and 1.15% through 1/31/14, respectfully. Otherwise, performance shown would have been lower.

April 1, 2013

"I want my cake, wanna eat it too."
- *I Wanna Be Rich* by Calloway

Dear Fellow Shareholders,

It's all about the Benjamin baby. In early March Warren Buffett told CNBC, "Bernanke has sort of carried the load himself during this period," and, "There's no question stocks are higher—because interest rates are essentially zero—than they would be otherwise." We have a consensus. The stock market is breaking records thanks to the Fed. All hail the Incredible Ben Bernanke, greatest magician ever! He waves his magic wand and money appears from thin air. Penn & Teller levitate a woman, but Bernanke levitates markets. Houdini escapes from chains underwater, and Bernanke rescues a nation of underwater borrowers. Copperfield makes the Statue of Liberty vanish, while Bernanke makes interest rates vanish.

Observing the capital markets today is like watching your kid conduct a magic show. You know it's fake, but to keep everyone happy you pretend to believe in it. The stock market has rallied this year on relief from avoiding the fiscal cliff and any immediate disastrous impact from sequestration. A couple of famous bond market investors have recently proclaimed that fixed income buyers have it rough (no argument here), but equities look reasonable. We'll forgive them for their relativist rants. Has the economy improved enough to justify investor bullishness?

We don't believe the recovery story because it is not supported by a strong foundation. If you build your economic house of straw, it can be toppled by the slightest of winds. Imagine the impact of a 200 to 300 basis point rise in interest rates. Refinancing accounts for 75% of mortgage activity today and is generating significant fees for banks. Who would be refinancing their home if mortgage rates were 6%? Would home prices be increasing? The U.S. government paid $360 billion in interest on debt outstanding in fiscal 2012. In 1998, it paid $364 billion. Debt was $5.6 trillion then and is over $16 trillion now. The deficit would be hundreds of billions higher if the average government borrowing rate was 4.5%, which is in between the 1998 and 2012 rates. Low interest rates and high deficits have helped push corporate profit margins to record levels. We fear that too many investors believe current margins are sustainable.

We take most media reports of economic improvement with a grain of salt. The advertised unemployment rate ignores people who have stopped looking for work, which is at the highest level in over 30 years (highest on record for men). Additionally, the number of people who have part time jobs but wish they had full time jobs is 4 million higher than it was before the recession.

Government Debt/Gross Domestic Product exceeds 100%, although some economists and politicians wearing rose-colored glasses argue that only the "public" debt matters. In other words, they claim we shouldn't count the $5 trillion of intragovernmental debt held as assets in accounts like the Social Security and Medicare Trust Funds. When Social Security is running a surplus, the government treats your payroll taxes as a loan to be spent on other things. Public Debt advocates claim this is money the government owes itself, not the people who have paid into these funds for years. Politicians will ultimately have to reduce benefits for future retirees, since unfunded liabilities exceed $80 trillion and could swamp our economy. Not helping matters is that a growing block of the working age population becomes lazier by the day—they want their cake, and they want to eat it too. <u>More seniors reliant on the government + Fewer workers + Insufficient savings = Huge problem.</u>

Top Ten Equity Holdings (% of net assets)

Holding	%
Bio-Rad Laboratories, Inc.	3.6%
FTI Consulting, Inc.	3.5%
Aspen Insurance Holdings Ltd.	3.1%
Ingram Micro, Inc.	3.0%
Amdocs Ltd.	2.9%
EPIQ Systems, Inc.	2.8%
Global Payments, Inc.	2.8%
World Wrestling Entertainment, Inc.	2.5%
Aaron's, Inc.	2.5%
Newfield Exploration Co.	2.4%

Top ten holdings are as of March 31, 2013. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security.

Our economic problems aren't insurmountable, but let's not pretend everything is peachy keen. We need to stop spending money we don't have. The near-term implications of this would not be welcomed by politicians: *Recession? Not under my watch!* Who will be the responsible ones? There's no easy way out of this situation. While the short-term repercussions of less Fed intervention, fiscal discipline, and a rebuilding of household savings would potentially be negative for the stock market, in the long run it should help us avoid economic calamity and ensure a brighter future. At Intrepid Capital, we are playing the long game. We are investing in what we believe are durable businesses when they can be purchased at a discount. We are not speculating by hopping on the Fed's market bandwagon.

During the three months ending March 31, 2013, the Intrepid Small Cap Fund (the "Fund") increased 4.47% compared to a 12.39% gain for the Russell 2000 benchmark. For the Fund's fiscal six month period ending March 31, 2013, the Fund rose 6.03% versus 14.48% for the Russell Index. Our underperformance is primarily tied to our cash position, which swelled to 54.2% of Fund assets at quarter end. Lately, we have not found many durable businesses that can be bought cheaply. The absence of downside volatility makes true value investing difficult. Unfortunately, we can't manufacture a <u>good investment idea.</u> If we could, here's what it would look like:

- Predictable business that has weathered multiple economic cycles
- Significant recurring free cash flow
- Lightly levered balance sheet
- Management with a strong record of capital allocation
- Trading at or close to a double digit normalized free cash flow yield

During the first quarter, we purchased one new position and sold six existing holdings, three of which had weightings below 1% of assets. Think of it as spring cleaning. We bought SAIC (ticker: SAI), a defense IT services firm, in a pair trade with ManTech (ticker: MANT). SAIC is larger, more diversified, and has a higher proportion of non-defense revenue compared to ManTech. Additionally, SAIC is pursuing a split into two companies in an effort to maximize shareholder value. To date, we have been disappointed with ManTech's unwillingness to repurchase shares. When SAIC traded at a discount similar to ManTech, we sold some of our ManTech position and rotated into SAIC, which we viewed as a higher quality discount. We currently own stakes in both firms. Our first quarter portfolio sales included Patterson UTI (ticker: PTEN), Potlatch (ticker: PCH), Iconix Brand Group (ticker: ICON), Amerisafe (ticker: AMSF), Cott (ticker: COT), and TeleTech (ticker: TTEC). Each of these names exceeded our valuation.

The top three portfolio gainers during the first quarter were Bio-Rad (ticker: BIO), Aspen Insurance (ticker: AHL), and Big Lots (ticker: BIG). All of these were larger positions. Bio-Rad is a leading life sciences company with substantial recurring revenue. It has traded cheaper than peers for years because of the family controlled voting structure. The company has a large amount of long-term investments that do not show up in common screens and are worth about 15% of the market cap. Aspen Insurance is an insurance and reinsurance company that we purchased in 2011 at more than a 30% discount to tangible book value. The firm has a history of consistent reserving. Favorable underwriting results in 2012 as well as recent share repurchases have contributed to gains in the stock. Big Lots (ticker: BIG) was purchased a couple of quarters ago. While the closeout retailer hasn't yet turned around operationally, the most recent quarter's results met expectations, and the stock may be rising

due to persistent buyout rumors.

The worst performers in the Fund over the past three months were Newfield Exploration (ticker: NFX), Pan American Silver (ticker: PAAS), and American Greetings (ticker: AM). Pan American's underperformance was in line with other precious metals miners and can probably be attributed to renewed hope in the economy and stock market. Newfield's shares fell significantly after the company announced that it intended to sell its Malaysia and China assets to fund domestic growth. Newfield's international assets account for a large proportion of current production but a much smaller part of reserves. Sell side analysts said Newfield would receive a lower multiple on its short tail international EBITDA than the company's current EBITDA multiple, implying that the sale would be dilutive to Newfield's intrinsic value. They are valuing Newfield by using a multiple on EBITDA, whereas we primarily value energy companies based on reserves. As a result, the EBITDA multiple received for these finite assets matters much less to us than the sale price relative to the discounted cash flow stream. Newfield is trading at an Enterprise Value (EV) of $1.75/Mcfe per proved reserve ($10.50/Bbl), while the industry average is around $3.00/Mcfe ($18/Bbl). The company has a similar liquids mix and proportion of developed reserves relative to the industry, and we see no compelling reason for the large discount. At current commodity prices, we believe that Newfield is undervalued based on all relevant metrics including the discounted cash flow stream of its existing assets, EV/EBITDA and EV/reserves compared to peers, and transaction comps within its producing areas.

American Greetings fell slightly during the first quarter. Last September, management offered to buy the company for $17.18 per share, which was a 20% premium to the intraday low from the prior day. In spite of the offer, short interest in the shares remained close to 40% of the float or higher. In reaction to a 7% unexplained drop in the shares over a two day period in January, management issued a press release stating that they had almost secured the necessary financing and were "materially" raising their offer to $17.50 per share (a 1.9% bump). American Greetings' stock continued to trade at a persistent high single digit discount to the new offer price, likely because investors did not trust management to complete the transaction. We also have a negative opinion of the company's management team, but we saw little reason for them to temporarily game the share price with a fake takeover offer, and we believed there were limited obstacles to obtaining sufficient financing.

Today, on April 1, 2013, the board announced it supported a final offer of $18.20 per share, and the shares quickly traded above $18. In the hands of better management, we think the stock could be worth significantly more. Unfortunately, there is no realistic option to replace the entrenched family management team, who collectively controls 43% of the voting power. While the merger requires a majority vote of shareholders other than management, we think it's likely to be approved. Voting down the merger would only hand the company back to existing management, who could continue to make bad capital allocation decisions. We're walking away from this one. We made a little bit of money on American Greetings, but it was not a very successful investment for the Fund.

There are still plenty of market skeptics today, but they are more likely to be retail investors burned by the credit crisis instead of professional investors. Stock prices are at highs. Mutual fund and hedge fund cash levels are near lows. Margins have stopped rising and profit growth has started to slow, yet expectations are robust. Whether it's March 2009 or March 2013, too many investors make decisions by looking in the rearview mirror. Today, they see a scene straight out of investment utopia. Bushy-tailed rabbits are jumping in lush fields of green stock prices, while rainbows beam from pots of gold and cut across the pale blue sky. Up in the heavens, written in soft white clouds is, according to some, the only investment advice you'll ever need: "Don't Fight the Fed." We need the occasional rainstorm to keep the investment landscape healthy. It's not in our DNA to be Fed puppets when investment fundamentals don't make sense. Given a choice between buying an overvalued asset or earning nothing, we'll take the latter. Small capitalization stocks continue to be priced richly, and we expect better opportunities in the future. Thank you for your investment.

Sincerely,

Jayme Wiggins, CFA
Intrepid Small 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 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 defensive position from the requirement to invest at least 80% of its net assets in equity securities of small capitalization companies.

The Russell 2000 Index consists of the smallest 2,000 companies in a group of 3,000 U.S. Companies in the Russell 3000 Index, as ranked by market capitalization. You cannot invest directly in an index.

Cash Flow measures the cash generating capability of a company by adding non-cash charges and interest to pretax income. Free Cash Flow measures the cash generating capability of a company by subtracting capital expenditures from cash flow from operations. EBITDA is calculated as the company's Earnings before Interest, Taxes and Depreciation. EV/EBITDA is the ratio of Enterprise Value to Earnings before Interest, Taxes, Depreciation, and Amortization. Enterprise Value equals market capitalization plus debt minus cash. Basis point is a unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument. Market cap is the market price of an entire company, calculated by multiplying the number of shares outstanding by the price per share. Tangible Book Value is calculated as shareholders' equity minus intangible assets including goodwill. Normalized free cash flow is the free cash flow we expect a company to generate in a typical year given normal economic conditions, without large swings in working capital or unusually high or low capital spending. The free cash flow yield equals normalized free cash flow divided by the company's market capitalization.

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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