Intrepid Capital Funds
the constant pursuit of value

INTREPID CAPITAL FUND

3RD QUARTER 2018 COMMENTARY

3Q 2018

SEPTEMBER 30, 2018

PERFORMANCE

	Inception Date	Total Return: Qtr.	YTD	1 Year	Average Annualized Total Returns as of September 30, 2018: 3 Year	5 Year	10 Year	Since Inception
Intrepid Capital Fund - Inv.	1/03/05	-0.18%	-2.21%	1.24%	6.88%	4.55%	7.39%	6.37%
Intrepid Capital Fund - Inst.	4/30/10	-0.11%	-2.02%	1.52%	7.17%	4.81%	-	6.32%
S&P 500 Index		7.71%	10.56%	17.91%	17.31%	13.95%	11.97%	8.91%^
ICE BofAML US High Yield Index		2.44%	2.52%	2.94%	8.19%	5.54%	9.38%	7.10%^
Russell 2000 Index		3.58%	11.51%	15.24%	17.12%	11.07%	11.11%	8.80%^
Blended Benchmark		5.59%	7.34%	11.77%	13.65%	10.59%	11.06%	8.29%^

^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 S&P 500 Index is 13.62%, ICE BofAML US High Yield Index is 6.97%, Russell 2000 Index is 12.30%, and the Blended Benchmark is 11.01%.

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 dated January 31, 2018, the annual operating expense (gross) for the Intrepid Capital Fund-Investor Share Class is 1.45% and for the Intrepid Capital Fund-Institutional Share Class is 1.20%. The Fund's Advisor has contractually agreed to waive a portion of its fees and/or reimburse expenses until January 31, 2019 such that the total operating expense for the Capital Fund-Investor Share Class is 1.15% and for the Capital Fund-Institutional Share Class is 1.15%. The Capital Fund-Investor Share Class may have Net Expense higher than these expense caps as a result of any sales, distribution and other fees incurred under a plan adopted pursuant to Rule 12b-1 under the Investment Company Act of 1940, as amended (the "Investment Company Act"), acquired fund fees and expenses or other expenses (such as taxes, interest, brokerage commissions and extraordinary items) that are excluded from the calculation. As a result of the calculations, the Net Expense for the Capital Fund-Investor Share Class is 1.41%. The Net Expense for the Capital Fund-Institutional Share Class is 1.16%. The Net Expense Ratio represents the percentage paid by investors. Otherwise, performance shown would have been lower.

October 5, 2018

"Life can only be understood backwards; but it must be lived forwards."
— Soren Kierkegaard

Dear Friends and Clients,

As I look at my Bloomberg terminal and read the quote above from Soren Kierkegaard, it seems appropriate as I reflect on our portfolio performance over the last twelve months. Looking at pedestrian investment results in what appears to be a roaring bull market is as frustrating for me as it is for you. But as the old idiom goes, you can't unring a bell – as much as I might want to.

For the one-year period ending September 30, 2018, the Intrepid Capital Fund (the "Fund") increased 1.24% compared to gains of 15.24% for the Russell 2000, 17.91% for the S&P 500 Index, and 11.77% for the Fund's Blended benchmark, which consists of 60% S&P 500 and 40% ICE BofAML High Yield. Now might be an appropriate time to restate the investment objectives of the Fund. Its primary objective is long-term capital appreciation and high current income, emphasis on the long-term. The Fund is categorized by Morningstar® as Allocation – 50% to 70% equity. This is what we refer to as a balanced strategy, which consists of holdings in cash (T-bills), stock and bonds.

Top Ten Holdings	(% OF NET ASSETS)
Berkshire Hathaway, Inc. - Class B	5.0%
Jefferies Financial Group, Inc.	3.7%
Oaktree Capital Group LLC	3.1%
AmerisourceBergen Corp.	3.1%
Protective Insurance Corp. - Class B	3.1%
The Western Union Co.	2.9%
Net 1 UEPS Technologies, Inc.	2.4%
Teradata Corp.	2.4%
FRP Holdings, Inc.	2.3%
FTI Consulting, Inc., 11/15/2022, 6.000%	2.3%

Top ten holdings are as of September 30, 2018. Fund holdings are subject to change and are not recommendations to buy or sell any security.

While many investment managers and their clients still measure performance by how much they outperformed or underperformed the S&P in a given period, I have long argued that investors can't eat relative returns. For that reason, the Fund focuses first and foremost on absolute return. Our primary goal is to generate sustainable positive results to meet our shareholders' objectives. Whether those objectives are related to retirement, education, philanthropy, or other aspirations, "outperforming" by losing less than a falling benchmark doesn't help make forward progress toward any goal.

The allocation in the portfolio tends to cluster around 60% in equities of various market cap sizes, with the remaining 40% in shorter-maturity fixed income. However, our equity allocation can range from 45% to 70%, depending strictly on what qualifying investment opportunities are available. We have found, along with others in the industry, that this mix tends to generate attractive risk/return characteristics and enable shareholders to weather times of financial adversity without buckling and abandoning their strategy. Industry data shows that investors in this type of strategy tend to have longer average holding periods than the typical equity fund investor.

The most distinctive factor that sets apart the equity holdings of this or any of our mutual funds is our rigorous process of determining what the underlying company is worth and the strict requirement that we don't purchase stocks unless they trade at a significant discount to that fair value. For fixed income, we want to determine how we will be repaid if we lend money to a company over a relatively short time frame.

Other distinguishing characteristics of the Fund include:

- Our investment horizon is long-term. In some cases, we've patiently owned a company for 3-5 years as our thesis plays out or the business steadily compounds value. We think this gives us a distinct advantage over many managers who may hold positions for a few months or less, resulting in higher portfolio turnover, transaction costs, and taxes.

- We construct more concentrated portfolios than many of our balanced fund peers. If we find an attractive business and believe a significant disconnect exists between its price and intrinsic value, we like to own a lot of it.

- Our mandate allows for a variety of equity market caps, and the Fund usually holds a mix of small, medium and large capitalization stocks. In addition, up to 25% may be companies not domiciled in the U.S. By my estimation, that gives us a potential of over 12,000 equity securities from which to choose – about 4,300 in the U.S., the rest in other developed markets around the globe.

- Lastly, we are not driven to invest based on the sector breakdown or other characteristics of a given benchmark index. The portfolio can and will differ from the indexes, particularly over shorter time frames, based on where we're finding pockets of value.

As a fiduciary, co-investor and portfolio manager for the last 24 years, I can only recall the period known as the Tech Bubble in the late 1990's where I felt as out of touch and left in the dust by the equity market as I do today. It is interesting to see some of the similarities in market performance, then and now.

Almost exactly 20 years ago (September 1998) the Federal Reserve, under Alan Greenspan, coordinated a bailout of Long Term Capital Management (LTCM), a very large, very levered hedge fund on the brink of collapse. LTCM was trading for many multiples of fund equity with the assistance of leverage and several Nobel Prize-winning economists and renowned Wall Street traders, and it nearly collapsed the global financial system in 1998. Between mid-July and early October 1998, the LTCM crisis fallout drove the Russell 2000 and S&P 500 down 32.6% and 18.8%, respectively.[1]

I bring this up as a reminder that prices can go down, often much quicker than they ascended. I am certain there is more leverage in the financial system today than at the start of this bull market, aided by the Fed's interest rate suppression. While households seem to have "gotten religion" since the financial crisis – personal debt levels are well below 2007 highs – corporations have gorged themselves at the feeding trough of cheap debt, enabled in part by seemingly insatiable investor demand for any fixed income instrument yielding more than 1%.

Many of those companies are already feeling the pinch of rising rates, especially the ones that borrowed with floating rate loans. The 10-year Treasury touched a low rate of 1.36% in July of 2016; today the 10-year Treasury yields 3.23%. The Federal Reserve is currently forecasting three more increases in rates in 2019. My guess is that at some point, the companies that have borrowed most heavily over the last decade will ultimately put that decision in the "it seemed like a good idea at the time" category!

Our results in the Fund over the last year were suppressed by the three largest detractors, which reduced the Fund's return by approximately 3.50%. Corus Entertainment (ticker: CJR/B CN) is a Toronto-based broadcaster that merged with sister company Shaw Media (the chairman of Corus is Heather Shaw). Although Corus has a dominant share of women and children's television programming in Canada, including broadcast rights to HGTV, Food Network, Disney Channel, Nickelodeon, and other top-tier programming, the additional leverage from the acquisition of Shaw Media coupled with falling advertising revenue and management's unwillingness to reduce their dividend, gave us enough reason to make the decision to sell earlier in the year.

Retail Food Group (ticker: RFG) is an Australia-based franchisor of fast food coffee, donut, and pizza shops. RFG had many of the characteristics we like in a business but had been painted as a villain by several Australian media outlets. Unfortunately, after a pair of Intrepid research analysts spent two weeks "down under," we realized the claims of franchisee mistreatment were true. Their meeting with management only worsened our doubts, and the CEO was unwilling to consider backing up his claims that the stock was undervalued by buying back shares, even at depressed prices. We completely exited this position during the second quarter and avoided significant additional losses by selling when we did.

Net 1 UEPS Technologies (ticker: UEPS) is a company providing payment solutions for un-banked individuals around the world. UEPS lost a contract several years ago to deliver welfare money electronically for the South African government, and the revenue stream is finally rolling off after extended delays in getting the South African Post Office up to speed as the replacement vendor. We believe the sum of the parts of UEPS' balance sheet is much higher than the current share price. We will continue to hold and monitor this security.

The top three contributors for the one-year period ending September 30, 2018 were Syntel (ticker: SYNT), Greenhill & Co. (ticker: GHL), and Discovery, Inc. (ticker: DISCK).

1 Returns quoted are for the period of July 17, 1998 to October 8, 1998

On the fixed income portion of the portfolio, Jason Lazarus, CFA has steered us away from the negative results of fixed income benchmarks with careful selection of shorter-term bonds. We continue to opportunistically invest in high yield issues when we can capture enough incremental spread to justify a step up in credit risk, but high yield debt trades today at the lowest spread over Treasuries in the post-financial crisis era, barely over 3%. Because of this poor risk/return tradeoff, roughly 20% of our bond holdings today are investment grade notes maturing in the next year or two, and the Fund's average expected payback period, as measured by duration, is well under two years. This positioning has paid off, as our fixed income holdings are positive year-to-date against a backdrop of the Bloomberg Barclays Aggregate Bond Index being down 2.53%.

We realize many of you are frustrated with our shorter-term results, and as your portfolio manager, trust me when I say I am right there with you. While we have had a few minor missteps, we believe that our risk-controlled process should generate attractive long-term returns and that we can recover from the recent underperformance.

Thank you for your continued support.

Best regards,

Mark F. Travis President
Intrepid Capital Fund Portfolio Manager

All investments involve 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. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually 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 may invest in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. The risks of owning ETFs generally reflect the risks of owning the underlying securities they are designed to track. ETFs also have management fees that increase their costs versus the costs of owning the underlying securities directly.

Mutual funds, ETNs, hedge funds, equities, bonds, and other asset classes have different risk profiles, which should be considered when investing.

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. ICE BofAML U.S. Corporate Index is an unmanaged index of U.S. dollar denominated investment grade corporate debt securities publicly issued in the U.S. domestic market with at least one year remaining term to final maturity. The ICE BofAML US High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch), at least 18 months to final maturity at the time of issuance, at least one year remaining term to final maturity as of the rebalancing date, a fixed coupon schedule and a minimum amount outstanding of $250 million. 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. The Blended Benchmark consists of 60% S&P 500 Index and 40% ICE BofAML US High Yield Index. Bloomberg Barclays Capital U.S. Aggregate Bond Index is an index representing about 8,200 fixed income securities. To be included in the index, bonds must be rated investment grade by Moody's and S&P. You cannot invest directly in an index.

Yield is the income return on an investment. It refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value. Duration is an approximate measure of the price sensitivity of a fixed-income investment to a change in interest rates, expressed as a number of years. Yield Spread is the difference between yields on differing debt instruments of varying maturities, credit ratings and risk, calculated by deducting the yield of one instrument from another.

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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