Intrepid Capital
MANAGEMENT INC.

3Q 2018

Index Returns	
7/1/2018 to 9/30/2018	
Dow Jones:	9.63%
S&P 500:	7.71%
NASDAQ:	7.41%
Russell 2000:	3.58%
MSCI EAFE:	1.35%

QUARTERLY COMMENTARY

October 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 Balanced Portfolio (the "Portfolio") increased 1.61%, net-of-fees, compared to gains of 15.24% for the Russell 2000, 17.91% for the S&P 500 Index, and 11.77% for the Portfolio'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 Portfolio. Its primary objective is long-term capital appreciation and high current income, emphasis on the long-term, and the Portfolio consists of holdings in cash (T-bills), stock and bonds.

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 Portfolio 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 enables clients 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 investor.

The most distinctive factor that sets apart the equity holdings of this or any of our strategies 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 Portfolio 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 product 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 Portfolio 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 Portfolio over the last year were suppressed by the three largest detractors, which reduced the Portfolio'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.

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

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).

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 Portfolio'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/CEO

SMALL CAP PORTFOLIO – COMMENTARY BY MARK TRAVIS, PRESIDENT/CEO, PORTFOLIO MANAGER

The third quarter of 2018 was another good one for small cap stocks. The Russell 2000 returned 3.58%, while the Morningstar Small Cap and S&P Small Cap 600 indexes returned 3.63% and 4.71%, respectively. Small cap U.S. stocks have been a favored trade in 2018, as concerns over global trade relations have pushed investors toward smaller companies with less international exposure. As absolute return investors, we have largely remained on the sidelines and refuse to overpay for securities just because they might suffer less than their large cap counterparts in an environment of higher tariffs and escalating acrimony between the U.S. and its trade partners. Our past several commentaries have consistently warned about the perils of investing in this overvalued, long-in-the-tooth bull market. While we won't speculate on the timing or cause of an eventual correction, there are a few recent developments that make us optimistic.

Notably, yields have moved sharply higher and are now beginning to offer investors a more enticing alternative to equities. In addition, the performance of the S&P Small Cap 600 fell 3.32% in September, compared to an increase in the S&P 500 of 0.57% – the largest monthly divergence in four years.[2] With higher multiples and more leverage than large cap stocks, we have long held that small caps have not been the safest place for investors to hide.

Another consequence of higher yields is that small cap companies will have a tougher time servicing the large debt piles they have accumulated during years of artificially suppressed interest rates and easy access to leverage. As of the writing of this

2 Liu, Evie. "Small-Cap Stocks May Be Sending a Bear-Market Signal." *Barron's*. 3 Oct 2018.

letter, total net debt divided by total EBITDA of the Russell 2000 stood at 4.98x, or over one turn higher than at the tail end of the last bull market (2006-2007).

Augmenting the challenge that this mountain of debt creates for companies is the pervasiveness of variable interest rates. Earlier this year, Goldman Sachs analyst Jessica Binder Graham found that 42% of the debt owned by companies in the Russell 2000 carries floating interest rates, compared with just 9% for companies in the S&P 500.[3] These variable rates mean that small cap companies will feel an immediate squeeze on their income statements as rates lift. Many of these companies produce miniscule or negative operating profit and would have already been forced to restructure or exit the market in a more "normal" rate environment. We welcome market weakness and volatility that might come from a cyclical credit squeeze, as it should allow us to deploy capital at more attractive prices and higher expected returns.

Before getting into performance, we wanted to note an important update about the management of the Intrepid Small Cap Portfolio ("the Portfolio"). On September 10th, Jayme Wiggins was terminated as lead portfolio manager of the Intrepid Small Cap. We are grateful for the efforts and discipline he contributed while at Intrepid and wish him all the best in the next chapter of his career. Unfortunately, the Portfolio's performance over the last several years has not met our expectations. I, Mark Travis, will now serve as portfolio manager, and assisting me will be research analysts Matt Parker, CPA and Hunter Hayes.

Importantly, there will be no major changes to the investment process and our rigorous approach to evaluating securities. However, as we continue our search for undervalued stocks, we would anticipate the Portfolio gradually becoming more invested and holding less cash. We also plan to employ more stringent qualitative research parameters, resulting in a tilt toward higher-quality businesses that compound value over time.

For the quarter ended September 30, 2018, the Portfolio returned -0.24%, net-of-fees. The top two contributors to performance were Hallmark Financial Services (ticker: HALL) and Crawford & Company (ticker: CRD/A). Hallmark reported a second consecutive quarter of underwriting profit, following several quarters of rough underwriting results in 2017. Poor results have stemmed from Hallmark's commercial auto insurance division. The challenges have been industrywide, but there are signs that conditions are improving. Insurers in this market niche have been aggressively hiking rates, and some competitors have retreated from the market. The industry tends to be cyclical, so we expect results to gradually improve. The business is trading at a discount to tangible book value and we continue to believe it is an attractive place for our capital.

Crawford was a new purchase for us in the prior quarter and has performed well since our investment. The company recently reported its third consecutive quarter of organic revenue growth, and management noted several signs of accelerating momentum. We think the company may be beginning to emerge from its lackluster growth phase.

The Portfolio's top three detractors for the quarter were iShares Gold Trust (ticker: IAU), Protective Insurance Corporation (ticker: PTVCB, formerly Baldwin & Lyons) and Net 1 UEPS Technologies (ticker: UEPS).

Gold prices continued to fall in the third quarter due to the continued strength of the dollar and a hawkish Federal Reserve. We like our position in the precious metal as we believe that it provides a suitable hedge against an overvalued market in the short term, and a long-term hedge against loose monetary policy and high global indebtedness.

Baldwin & Lyons changed its name to Protective Insurance Corporation in August in order to align the holding company name with the name of the underwriting subsidiary. There were no major developments for the company during the quarter, and we believe the company will benefit from the aforementioned cyclical recovery in commercial auto insurance. In the meantime, the stock continues to offer an attractive dividend yield near 5%. Like Hallmark, Protective also trades below its tangible book value.

Net 1 UEPS Technologies (UEPS) reported its fiscal year results a few weeks ago. It's been a volatile year for UEPS shares as the company prepared to end its long-held contract with the South African Social Security Agency (SASSA). As of October 1,

3 Arends, Brett. "Unseen Dangers in Small-Cap Stock Rally." *Barron's*. 20 Jan 2018.

the contract is no more. After years of negative publicity, extensions, and uncertainty about the replacement vendor, we view the completion of the welfare distribution contract as a net positive that will allow management to focus on the company's bright future. UEPS' fast-growing EasyPay Everywhere (EPE) banking offering will offset much of the foregone revenue, and our hope is that UEPS will no longer be the South African media's scapegoat for the myriad issues plaguing SASSA.

Just before writing this, the Supreme Court of Appeal of South Africa ruled in UEPS' favor to continue letting grant recipients choose any bank account they like to receive their grant payments. Furthermore, recipients can transact freely with any service provider, utilizing the full functionality of their bank accounts with the money from those grant payments. This bodes well for EasyPay Everywhere (EPE), as grant recipients can continue receiving grant money in their EPE accounts and, in turn, utilize UEPS' vast financial services infrastructure. That infrastructure includes the most extensive distribution network of mobile and fixed ATMs in South Africa (~2,000) and access to services like microloans, life insurance, prepaid utilities, telecommunications products, and other offerings typically not available to the unbanked. As of 6/30/2018, there were ~2.9 million EPE account holders.

In addition to its core South African business, our investment in UEPS is reinforced by the company's balance sheet and ownership of KSNET Inc., one of the largest South Korean payment companies. The combined value of those balance sheet investments and KSNET, even without the core business, is above UEPS' current stock price. Once the company proves its South African business can thrive despite the SASSA contract expiring, we are confident that the market will recognize the value in UEPS.

While we are not pleased with the short-term performance of the Portfolio, we believe our conservative positioning will lead to our goal of significant outperformance when the cycle turns and the longest running bull market in history inevitably comes to a conclusion. Thank you for your investment.

DISCIPLINED VALUE PORTFOLIO – COMMENTARY BY CLAY KIRKLAND, CFA, PORTFOLIO MANAGER

U.S. equity markets continued their ascent in the third quarter with all major indices exceeding their January peaks and hitting new all-time highs. Our long-term approach to investing did not fare as well. Value significantly underperformed growth—the S&P Growth Index returned 3.42% points more than its value counterpart. While it is painful to feel like you were not invited to the party, we are confident that value will have its day in the spotlight soon.

We believe a portfolio composed of high-quality businesses with strong fundamentals that trade at reasonable prices will perform well over time; however, there may be periods where we underperform like we have recently. The U.S. equity market has been an outlier globally this year as a strong economy fueled by tax cuts has helped insulate it from the turmoil seen in some foreign markets. The U.S. debt market is a different story, however, and has been moving lower. The Fed raised rates in September for the third time this year and the market pegs a 77% probability that another increase will occur in December. The Treasury market has reacted by selling off to the point where some yields are at the highest levels since 2011, when U.S. government debt was downgraded.

On the surface things look great domestically—GDP is growing at a fast rate (bolstered by corporate tax cuts), consumer spending is strong, and unemployment is at a 40-year low. But where do we go from here? We are interested to see what impact threatened and already enacted tariffs will have on growth in the fourth quarter and early 2019. Perhaps the market is already beginning to factor in slower growth and higher rates. As I write this, we are seven trading days into October and month-to-date returns are -4.33% for the S&P 500 and more than 7% declines for small caps and technology indices.

For the quarter ending September 30, 2018, the Intrepid Disciplined Value Portfolio (the "Portfolio") returned 0.26%, net-of-fees, compared to a return of 7.71% for the S&P 500 Index. Year-to-date, the Portfolio has decreased 0.53%, net-of-fees, compared to the increase of 10.56% for the S&P 500. We are not pleased with the recent short-term performance. A few securities had an outsized negative impact on performance. In fact, the three largest detractors were a drag of over five percentage points on the year-to-date return through September 30, 2018.

For the third quarter, the top contributors were Apple (ticker: AAPL), Berkshire Hathaway (ticker: BRK/B), and AmerisourceBergen (ticker: ABC).

We purchased shares of Apple a few years ago when the company was trading at a material discount to intrinsic value. At the time, investors were worried about potential margin pressure and feared a slowdown in iPhone sales would weigh on performance. Since then, the company has continued to innovate and find new growth avenues of high margin revenue. While the iPhone market has matured, its Services and Other categories are growing very quickly.

The company announced early this year it would reduce its net cash balance from $163 billion to zero, and it is doing so through shareholder-friendly activities. Apple's world-class management team has successfully increased the company's intrinsic value over the years, but after the significant appreciation in the stock price following recent results, we reduced our position by a small amount.

Royal Mail PLC has been a roller coaster over the past year. While it was a top contributor for the trailing 12-month period ending September 30, 2018, the stock gave up all of its gains and then some in the days since. The company is struggling to grow its top line at the same time it is facing increased costs. We believe these headwinds will be challenging to overcome, so we exited the position after quarter end.

We purchased Cheesecake Factory about a year ago after shares had fallen precipitously. The company was experiencing negative same-restaurant sales growth and significant margin pressure. Growth has since turned positive, but the margin issues remain as increased labor costs have proven difficult to overcome. Speculation earlier this year that the company was a takeover target pushed shares higher, at which point we reduced our position. Management is acutely focused on improving margins and we believe any incremental improvement over the next few quarters will help alleviate those concerns.

For the year, Corus Entertainment (ticker: CJR/B CN) hurt performance by about 3%. We have written about the company extensively in the Intrepid Small Cap quarterly commentary over the past few years, including in the first quarter of 2018. Admittedly, we were wrong, and the position should have been sold sooner, but it is no longer in the Portfolio.

Net 1 UEPS Technologies (ticker: UEPS) has been a volatile holding. There are many moving parts and very little sell-side coverage, which we believe has led to confusion amongst investors. As of October 1, the company's legacy contract with the South African Social Security Agency (SASSA) is no more. We view this as a net positive. UEPS' fast-growing EasyPay Everywhere (EPE) banking offering will offset much of the foregone revenue, and our hope is that UEPS will no longer be the South African media's scapegoat for the myriad issues plaguing SASSA.

A positive development was recently announced when the Supreme Court of Appeal of South Africa ruled in UEPS' favor to continue letting grant recipients choose any bank account they like to receive their grant payments. Furthermore, recipients can transact freely with any service provider, utilizing the full functionality of their bank accounts with the money from those grant payments. This bodes well for EasyPay Everywhere, as grant recipients can continue receiving grant money in their EPE accounts and, in turn, utilize UEPS' vast financial services infrastructure. That infrastructure includes the most extensive distribution network of mobile and fixed ATMs in South Africa (~2,000) and access to services like microloans, life insurance, prepaid utilities, telecommunications products, and other offerings typically not available to the unbanked.

UEPS' balance sheet alone supports its valuation. Its equity investments along with its ownership of KSNET Inc., one of the largest South Korean payment companies, combine to be worth much more than its current market capitalization. We believe once the company proves its South African business can thrive despite the SASSA contract expiring, the market will recognize the value in UEPS.

Western Digital (ticker: WDC) is a position we have owned for a few years. Its business is divided into two parts: HDD (hard disk drives) and NAND memory, which can be used in many applications including solid state drives. Revenue is about equally spilt between the two businesses, but NAND carries a much higher margin. The two technologies are substitutes in many instances, with each having its own set of strengths and weaknesses. HDDs are much cheaper on a per gigabit basis but lack the performance capabilities of NAND. When NAND prices are high, demand for HDDs increases, and vice versa.

Despite what we consider a hedge of sorts, investors only seem to care about the NAND business, and more specifically where NAND pricing is going moving forward. Unfortunately, pricing weakness started to show up much sooner than management had communicated to investors. It has continued to be the case up through the most recent quarter and has caused a dramatic sell-off in the price of the stock.

Fundamentally, the company is doing quite well. The HDD business is exceeding expectations and the NAND business is still wildly profitable. The company is generating massive amounts of free cash flow and continues to grow its operations. However, it is now one of the cheapest stocks in the S&P 500 index. Investors worry that this memory cycle will be like past memory cycles which have seen material swings in pricing. We do not believe this to be the case. We are in the midst of a secular trend of increased demand for memory chips and view Western Digital as well positioned within the marketplace.

With inflation on the rise, we are seeing increasing wages at many of the companies we own. The retail industry has been especially vocal on the matter as wage pressures have weighed on margins in recent quarters. This has caused some stocks to sell off, providing us with an opportunity to acquire shares at attractive prices. We increased our position in Dollar Tree (ticker: DLTR) during the quarter. The company reported disappointing results at its Family Dollar banner, revealing weak sales and high costs. However, the Dollar Tree banner continues to perform extremely well. At current prices, the market is assigning almost no value to the 8,000 location Family Dollar franchise. We believe management will make the necessary changes needed to get Family Dollar back on track. Small incremental improvements at the banner will go a long way to improve financials and help bolster the equity price.

Again, performance was not what we had hoped for and not what we expected. We are invested alongside you and will continue to work hard to help grow and protect our mutual investments.

INCOME PORTFOLIO – COMMENTARY BY JASON LAZARUS, CFA, PORTFOLIO MANAGER

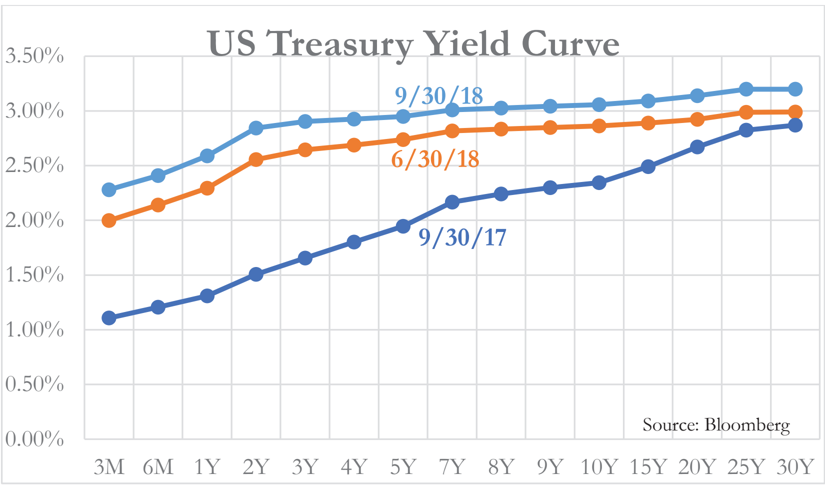
The domestic fixed income markets produced mixed results in the quarter ended September 30, 2018. The U.S. Treasury curve continued to shift higher across all maturities, resulting in lower bond prices. However, exposure to credit risk was highly rewarded. The Bloomberg Barclays US Aggregate, which is a broad measure of the investment grade fixed income market in the United States, eked out a 0.02% gain. The Aggregate's relatively high exposure to US Treasury and agency securities meaningfully detracted from the index's return but was more than offset by the positive impact of credit exposure.

Investment grade corporate bonds returned a respectable 0.96% after a tough first half of the year, as measured by the ICE BAML US Corporate Index. The lower quality ICE BAML US High Yield Index rallied an impressive 2.44%. Given the Intrepid Income Portfolio's (the "Portfolio") shorter duration and higher quality biases, we also cite the performance of the ICE BAML 1-5 Year BB-B Cash Pay High Yield Index, which returned 2.08% in the quarter. Weaker credit quality generally produced the best returns in the quarter, led by CCC-rated issues.

The Income Portfolio returned 0.87%, net-of-fees, in the third quarter. Nearly half of the Portfolio's assets were invested in short-term investment grade bonds that we believe will produce attractive risk-adjusted returns relative to Treasury bills, but will certainly underperform lower-rated issues in risk-on environments like the third quarter. Furthermore, our high yield holdings are generally on the higher end of the quality spectrum and therefore do not experience as much appreciation during strong periods as the high yield indexes. The Portfolio did not have any material contributors or detractors in period. For the most part, the Portfolio clipped coupons for three months. We have no qualms with the lack of fireworks and are perfectly happy taking our coupon and principal payments on schedule, particularly in what may be the later innings of the cycle.

The one-year period ending September 30, 2018, was a bit more eventful. Treasury yields have exploded higher across the yield curve, and particularly at the front end, as the Federal Reserve has marched the overnight lending rate above 2%. The long end of the curve has shifted upwards to a lesser degree, but the higher interest rate sensitivity has led to a significant sell-off in longer-dated investment grade bonds.

Investment grade corporate credit was essentially flat over the last twelve months, but higher coupon rates helped to offset some of the market value decline. The US Corporate Index lost 1.096% in the period. On the other hand, high yield bonds performed quite well due to economic strength and desire for investors to own risky assets. The High Yield Index gained 2.94% over the last twelve months, and the 1-5 Year BB-B Index returned 3.70%. The Intrepid Income Portfolio gained 2.21%, net-of-fees. The Portfolio's allocation to high yield credits averaged less than 50% over the last year.



Primero Mining convertible notes, FTI Consulting 6% due 11/15/2022, and Silgan Holdings 5.5% due 2/01/2022 were the three largest contributors to the Portfolio's performance in the twelve-month period, although most of the Portfolio's large high yield positions were material contributors. Primero has been discussed in several past letters. The distressed junior miner was purchased earlier this year by First Majestic Silver, which repurchased our bonds at par value. FTI and Silgan are two of the Portfolio's largest positions, and both outperformed the high yield benchmarks over the last year.

There were two material detractors that we have written about in past quarters. Retail Food Group common stock (ticker: RFG AU) and Corus Entertainment common stock (ticker: CJR/B CN) significantly impacted our performance in the last twelve months. Rather than reprint our previously recorded thoughts, we refer readers to our first and second quarter commentaries for indepth discussions on these holdings. At the time of this writing, our decisions to liquidate both of these securities appear to be well-founded. Neither business' prospects have improved, which has translated into further price declines in the shares. Both securities have fallen roughly 50% since we exited the positions.

Several of the Portfolio's short-term investment grade bonds matured in the third quarter, including two of our longer-term holdings in Dillard's and Expedia. These issues outperformed similar maturity Treasury securities by three to four times. The maturing issues were replaced with investment grade bonds maturing in the next two to ten months. We believe opportunities are still present in the front end of the investment grade yield curve, but overall BBB credit quality appears relatively weak. We are carefully assessing credit quality and liquidity now that the three-month Treasury bill offers a yield of 2.15%.

We initiated positions in two bonds issued by Wyndham Destinations (WYND), the world's largest timeshare business with over 220 resorts and nearly 900,000 members. Formerly known as Wyndham Worldwide, the company recently spun off Wyndham Hotels and sold its European vacation rentals business to become a pure-play timeshare operator. While the sale of timeshares is quite obviously cyclical, a significant portion of Wyndham's earnings stream is derived from services that appear to be recession-resistant. Greater than half of the firm's timeshare sales are generated from existing customers upgrading their vacation packages, for example, adding an additional week's stay. Upgrade revenue proved to be much more resilient in the 2009 recession. Wyndham also provides financing to timeshare buyers that also performed relatively well during the financial crisis. After the timeshare sale is completed, Wyndham provides property management services that are required regardless of the economic cycle.

Wyndham's earnings power is further bolstered by its ownership of *RCI*, the world's largest timeshare exchange network. Timeshare owners pay around one hundred dollars a year to be a member of the network, which allows them to exchange their timeshares for stays at over 4,000 properties across the globe. RCI has 3.9 million members. While growth has been hard to come by, the exchange business is extremely stable and produces generous free cash flow. Wyndham has reported just one quarter as a standalone company since the spin-off was completed, but we believe pro forma EBITDA will exceed $950 million, placing leverage at under 3x. Management has pledged to reduce debt by $400-$500 million over the next three years. We purchased two Wyndham Destinations bond issues in the quarter – one maturing in 2021 and the other in 2023. In our opinion, the issues will prove to be attractive shorter-duration holdings.

Since the end of the quarter, U.S. Treasury yields have continued to spike. The benchmark 10-year yield broke through 3.2% in the first week of October, the highest level since early 2011. The consensus projection is that the Federal Reserve will continue to consistently raise rates through next year.

We are pleased with the Income Portfolio's performance in such an environment and believe our opportunity set is becoming more attractive. The portfolio is well constructed and will enable us to redeploy cash from maturities into higher-yielding securities. With that said, we continue to see signs of excess in the credit markets, including the ballooning size of the BBB-rated bond market, historically high leverage ratios across ratings, and the loosest covenants in history.

A recent Bloomberg article noted that the absence of covenants is so common that the presence of them may actually be a red flag for investors. While we find these top-down perspectives to be interesting, they do not direct our investment strategy. We do not deploy capital based on the valuations of entire markets, and we will not pretend to be able to forecast the direction of interest rates. We will continue to follow a bottom-up process to identify attractive fixed income investments and apply rigorous fundamental analyses when underwriting credits. Thank you for your investment.

INTERNATIONAL PORTFOLIO – COMMENTARY BY BEN FRANKLIN, CFA, PORTFOLIO MANAGER

The Intrepid International Portfolio (the "Portfolio") endured a decline of 4.00%, net-of-fees, for the third quarter of 2018, while the MSCI EAFE Index (the "Index") eked out an increase of 1.35%. As is normally the case with the Portfolio, the high concentration of uncorrelated securities causes it to perform much differently than the Index. The third quarter was swung by a few large detractors. We believe it's important for our investors to understand that movements in the market prices of securities many times does not reflect changes in the value of the underlying businesses.

To help understand the negative performance during the period, we will begin with a review of the top three detractors for the quarter. These were Quarto Group (ticker: QRT LN), Dundee Corp's 7.5% Series 5 Perpetual Preferred shares (CUSIP: 264901877), and Coventry Group (ticker: CYG AU).

Quarto is a British illustrated book publisher focused on both Children's and Adult titles. Many believe books are a relic of the past, but the data suggests otherwise. A market and channel review conducted by Pragma Consulting Limited was commissioned by the company in November 2017. The report highlighted that the addressable market for Quarto in the US has grown 4.6% since 2013 and is forecast to grow by a further 8.8% by 2020. Past and expected future growth rates in the UK were also reported to be in the mid-single digits.[4] As mentioned above, the books Quarto sells are illustrated and thus are more insulated from the shift to the digital age.

4 The Quarto Group. *Annual Report 2017.* Web. 4 Oct 2018, p. 19.

On September 17, 2018 Quarto reported a revenue increase of 12% with an even larger improvement in earnings. Despite the positive development, the stock has traded down. This is a very thinly traded stock, and it can have significant price movements on very little volume. We believe this stock is one where Mr. Market has provided a price that is not related to the underlying value of the stock.

To play devil's advocate, the company does have a debt balance they are dealing with. However, the company has publicly stated they are close to extending the maturity of their debt. Additionally, 40% of the company's 2017 revenue was backlist titles that produce revenue over three years on average. In a bind, the company could choose to not reinvest in some of these titles temporarily and use the cash flow to pay down debt. We believe the new CEO, CK Lau, will skillfully inject capital into the business, so this is an unlikely possibility, but it is an option. Lastly, Lau has developed a formidable plan to both cut costs and grow revenue. We don't believe the market is giving the stock credit for this plan, which will play out over the next year or so.

The Dundee Series 5 Preferred shares have a put date in June of 2019 at par; however, the company has the option to convert the shares to common equity at a floor price of C$2.00 per Class A share. On the company's most recent conference call, management hinted at this possibility, as well as the possibility of a negotiation to extend the preferred, and potentially a partial redemption. The comments caused the preferred to drop in price, despite having significant asset coverage. We are not sure exactly how the negotiations will work out; however, the company has the ability to pay off the Series 5 shares now, and the largest holder negotiating with the company successfully renegotiated terms with the company in a similar fashion in 2016. The current yield on the preferreds is over 9%, so we are happy to be paid an adequate dividend while we wait.

The company has two other Series of preferred shares outstanding, one of which we own. The price of that security increased during the period as the possibility that the Series 5 Preferreds may be extended has increased the credit quality of the other outstanding Series. In fact, the Series 3 Preferred Shares went on to be a top contributor during the quarter.

Coventry Group was a top detractor for the Portfolio for two reasons: 1) its large weight in the portfolio means a small price movement will have a large impact on performance, and 2) we believe the price our 3rd party pricing service provided for the illiquid security at the end of the quarter was conservative. The weight in the Portfolio has increased over time as the security has increased in value; in fact, it was a top contributor in the second quarter of this year.

Typically, securities we own are valued at the last sales price on the securities exchange on which they are primarily traded. However, shares of Coventry Group do not trade every day. In this situation, our third-party pricing service will generally use the bid quotation. This can vary significantly from where the shares have recently traded. The last day of the third quarter that the shares traded was September 25th at a price of A$1.233 per share. They did not trade on the last trading day in the period, and our pricing service valued them at the bid price of AUD 1.15 per share instead of the last price they traded at. The nearly 7% difference between these two prices was enough to cause a roughly 40 bps negative contribution to the Portfolio. The shares have traded higher as we have entered the fourth quarter.

Despite the downward price of the security, we believe the business fundamentals at Coventry Group are improving significantly. The Australian firm supplies fasteners and other products to the industrial market. Its business is literally focused on nuts and bolts. Financial performance is improving, employee morale has spiked, and customers are happier than they've been in years. We are happy with the direction of the firm and our investment in it.

Our top three contributors for the quarter were Dundee Corp's 5% Series 3 Perpetual Preferred shares (cusip: 264901802), Clere (ticker: CAG GR), and Gattaca (ticker: GATC LN).

Our top contributor during the third quarter, the Dundee Series 3 Preferreds, belong to the same company whose Series 5 Preferreds were a top detractor. This shows how different parts of the capital structure can have significantly different price movements. The assets backing both securities are the same, but the performance is widely different. Our weight was higher in the security with the positive performance.

Clere is another company in which we own a large weight. The company has over €18 per share in cash and investments yet trades south of €12.50 per share. Despite the stability of the assets, the security tends to swing around for no apparent reason; this quarter it swung in our favor. We have taken advantage of the vicissitudes to add on weakness, and when the weight gets too large for our risk profile, reduce on strength. We have no idea what the future holds for the price of the shares, but we feel confident in a stable to growing intrinsic value.

Gattaca swung from a top detractor in the second quarter of 2018 to a top contributor this quarter. We provided an update last quarter on the UK recruitment firm and explained our decision to purchase more shares in the face of weakness in that quarter's commentary. This quarter the price of the shares rebounded slightly, allowing the security to be a top contributor. We still hold a large weight in this undervalued security.

The only new addition during the period was a purchase of Italian Wine Brands (ticker: IWB IM). The wine seller does not own any vineyards, which allows for an asset light business. The company is priced at a discount relative to its peers and our own intrinsic value calculation. IWB produces copious amounts of free cash flow and could be a takeover target down the road by a competitor.

Recently international markets have lagged domestic stocks. On a year-to-date basis, the Index is down 1.43%, compared to the S&P 500's return of 10.56%. However, it is not a given that the US will always outperform the rest of the world. In fact, in the 1970s and 2000s the US was among the worst-performing stock markets worldwide. Even the 80s were tough, as a recent Wall Street Journal article highlighted that international stocks outperformed the US by an average of 6.2% per year for the 10 years ending 1986.[5] Domestic indexes have been driven by technology stocks, which are not nearly as present in the rest of the world's markets. We do not believe that the recent underperformance of international markets will last forever; however, we do not have the foresight to determine when that will reverse. However, we do believe there is ample opportunity to find investments in foreign markets that offer attractive risk-adjusted returns.

This quarter the Portfolio's performance was driven by securities for which we think the price moved independently of the underlying value. While a negative performance is not something to celebrate, we are comforted by the ability to add to some positions at what we believe to be attractive prices. We must remain detached from market prices, while being relentless in our assessment of value. We strongly believe we are doing so. Lastly, we are pleased our investors understand and share our philosophy, which is one that generally results in uncorrelated performance. Thank you for your investment.

SELECT PORTFOLIO – COMMENTARY BY MARK TRAVIS, PRESIDENT/CEO, CO-PORTFOLIO MANAGER & CLAY KIRKLAND, CFA, CO-PORTFOLIO MANAGER

The third quarter of 2018 was another good one for small cap stocks. The Russell 2000 returned 3.58%, while the Morningstar Small Cap and S&P MidCap 400 indexes returned 3.63% and 3.86%, respectively. Small cap U.S. stocks have been a favored trade in 2018, as concerns over global trade relations have pushed investors toward smaller companies with less international exposure.

Yields have moved sharply higher and are now beginning to offer investors a more enticing alternative to equities. In addition, the performance of the Russell 2000 fell 2.41% in September, compared to an increase in the S&P 500 of 0.57% – the largest monthly divergence in four years.[6] With higher multiples and more leverage than large cap stocks, we have long held that small caps are not the safest place for investors to hide right now.

Another consequence of higher yields is that small cap companies will have a tougher time servicing the large debt piles they have accumulated during years of artificially suppressed interest rates and easy access to leverage. As of the writing of this letter, total net debt divided by total EBITDA of the Russell 2000 stood at 4.98x, or over one turn higher than at the tail end of the last bull market (2006-2007).

5 Zweig, Jason. "The 'Dumb' Money Is Bailing on U.S. Stocks." *The Wall Street Journal.* 28/29 Sept. 2018, p. B5.
6 Liu, Evie. "Small-Cap Stocks May Be Sending a Bear-Market Signal." *Barron's.* 3 Oct 2018.

Augmenting the challenge that this mountain of debt creates for companies is the pervasiveness of variable interest rates. Earlier this year, Goldman Sachs analyst Jessica Binder Graham found that 42% of the debt owned by companies in the Russell 2000 carries floating interest rates, compared with just 9% for companies in the S&P 500.[7] These variable rates mean that small cap companies will feel an immediate squeeze on their income statements as rates lift. Many of these companies produce miniscule or negative operating profit and would have already been forced to restructure or exit the market in a more "normal" rate environment. We welcome market weakness and volatility that might come from a cyclical credit squeeze, as it should allow us to deploy capital at more attractive prices and higher expected returns.

With the above points in mind, we increased our position size in a handful of midcap holdings that have solid balance sheets and strong free cash flow generation. We also added a new midcap company to the portfolio, which will be discussed in more detail below.

Before getting into the performance, we wanted to note an important update about the management of the Intrepid Select Portfolio ("the Portfolio"). On September 10th, Jayme Wiggins was terminated as lead portfolio manager of the Intrepid Select. We are grateful for the efforts and discipline he contributed while at Intrepid and wish him all the best in the next chapter of his career. Unfortunately, the Portfolio's performance over the last several years has not met our expectations. Mark Travis and Clay Kirkland, CFA, will now serve as co-lead portfolio managers. Research analysts Matt Parker, CPA and Hunter Hayes are also part of the team for the Select Portfolio.

Importantly, there will be no major changes to the investment process and our rigorous approach to evaluating securities. However, we plan to employ more stringent qualitative parameters resulting in a tilt toward higher quality businesses that compound value over time.

For the quarter ended September 30, 2018, the Portfolio returned -0.92%, net-of-fees. We are disappointed in the performance. The frustrating part is that most of the underperformance can be attributed to just a few positions.

The Portfolio's top three contributors for the quarter were Tetra Tech (ticker: TTEK), Syntel (ticker: SYNT), and Hallmark Financial Services (ticker: HALL).

Intrepid has held an equity stake in engineering services provider Tetra Tech since mid-2013, well before the Portfolio's inception. The company has a solid management team that has compounded value over time, and the business is firing on all cylinders. It continues to see double digit top line growth across both government and commercial clients, as well as a steady stream of new contract wins coming into the backlog. Tetra Tech also reported rising margins and raised guidance, driving the stock to new all-time highs.

Syntel, which we have written about on multiple occasions, has been a strong performer for the Portfolio. We had been trimming our position as shares appreciated materially this year until it was announced on July 22nd that Atos S.E. would be acquiring the company for $41 per share. The deal closed early in the third quarter, so it is no longer held in the portfolio.

Hallmark reported a second consecutive quarter of underwriting profit, following several quarters of rough underwriting results in 2017. Poor results have stemmed from Hallmark's commercial auto insurance division. The challenges have been industrywide, but there are signs that conditions are improving. Insurers in this market niche have been aggressively hiking rates and some competitors have retreated from the market. The industry tends to be cyclical, so we expect results to gradually improve. The stock is trading at a discount to tangible book value, and we continue to believe it is an attractive place for our capital.

The Portfolio's top three detractors for the quarter were Western Digital (ticker: WDC), Net 1 UEPS Technologies (ticker: UEPS), and Protective Insurance Corporation (ticker: PTVCB, FKA Baldwin & Lyons).

7 Arends, Brett. "Unseen Dangers in Small-Cap Stock Rally." *Barron's*. 20 Jan 2018.

Western Digital shares have fallen by almost 50% from their peak in March, making it one of the cheapest securities in the S&P 500 despite its strong balance sheet and free cash flow generation. Its business is divided into two parts: HDD (hard disk drives) and NAND memory, which can be used in many applications including solid state drives. Revenue is about equally spilt between the two businesses, but NAND carries a much higher margin. The two technologies are substitutes in many instances with each having its own set of strengths and weaknesses. HDDs are much cheaper on a per gigabit basis but lack the performance capabilities of NAND. When NAND prices are high demand for HDDs increases, and vice versa.

Despite what we consider a hedge of sorts, investors only seem to care about the NAND business and more specifically, where NAND pricing is going moving forward. Unfortunately, pricing weakness started to show up much sooner than management had communicated to investors. It has continued to be the case up through the most recent quarter and has caused a dramatic sell-off in the price of the stock.

Fundamentally, the company is doing quite well. The HDD business is exceeding expectations and the NAND business is still wildly profitable. The company is generating massive amounts of free cash flow and continues to grow its operations. Investors worry that this memory cycle will be like past memory cycles which have seen material swings in pricing. We do not believe this will be the case. We are in the midst of a secular trend of increased demand for memory chips and view Western Digital as well positioned within the marketplace.

Net 1 UEPS Technologies (UEPS) reported its fiscal year results a few weeks ago. It's been a volatile year for UEPS shares as the company prepared to end its long-held contract with the South African Social Security Agency (SASSA). As of October 1, the contract is no more. After years of negative publicity, extensions, and uncertainty about the replacement vendor, we view the completion of the welfare distribution contract as a net positive that will allow management to focus on the company's bright future. UEPS' fast-growing EasyPay Everywhere (EPE) banking offering will offset much of the foregone revenue, and our hope is that UEPS will no longer be the South African media's scapegoat for the myriad issues plaguing SASSA.

Just before writing this, the Supreme Court of Appeal of South Africa ruled in UEPS' favor to continue letting grant recipients choose any bank account they like to receive their grant payments. Furthermore, recipients can transact freely with any service provider, utilize the full functionality of their bank accounts with the money from those grant payments. This bodes well for EasyPay Everywhere (EPE), as grant recipients can continue receiving grant money in their EPE accounts and, in turn, utilizing UEPS' vast financial services infrastructure. That infrastructure includes the most extensive distribution network of mobile and fixed ATMs in South Africa (~2,000) and access to services like microloans, life insurance, prepaid utilities, telecommunications products, and other offerings typically not available to the unbanked. As of 6/30/2018, there were ~2.9 million EPE account holders.

In addition to its core South African business, our investment in UEPS is reinforced by the company's balance sheet and ownership of KSNET Inc., one of the largest South Korean payment companies. The combined value of those balance sheet investments and KSNET, even without the core business, is well above UEPS' current stock price. Once the company proves its South African business can thrive despite the SASSA contract expiring, we are confident that the market will recognize the value in UEPS.

Baldwin & Lyons changed its name to Protective Insurance Corporation in August in order to align the holding company name with the name of the underwriting subsidiary. There were no major developments for the company during the quarter, and we believe the company will benefit from a cyclical recovery in commercial auto insurance. In the meantime, the stock continues to offer an attractive dividend yield near 5%.

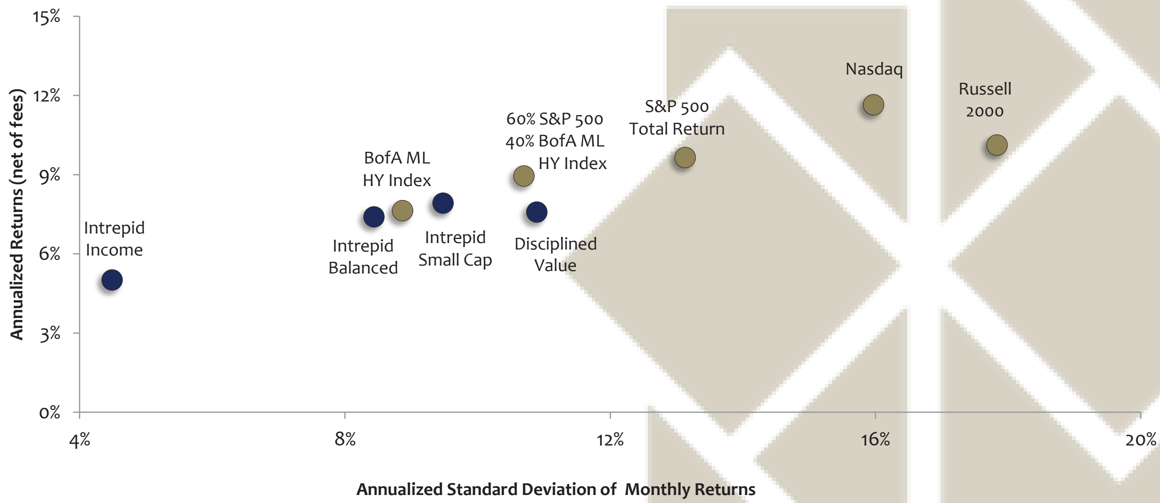
A new position we would like to highlight is Madison Square Garden (ticker: MSG). MSG is the owner of many iconic sports, real estate, and entertainment assets. The most valuable assets include the New York Knicks, New York Rangers, and, of course, the famed Madison Square Garden arena. Our base case uses the latest Forbes estimates for the value of the sports franchises. We view this as conservative since NBA transactions have historically taken place at significant premiums to Forbes' estimates. In fact, the last eight NBA transactions have come at a 32% premium on average, and this excludes the Los Angeles Clippers sale which was at a ~250% premium. Additionally, recent steps to legalize sports gambling should only help to increase the value of professional sports teams. Another quality we like is the fact that professional sports team valuations have not historically been very sensitive to business cycles. Valuation for professional sports teams have historically held up well during recessions as billionaire owners do not sell teams at fire-sale prices. For example, the Knicks' value only fell by 4% in 2009. Another layer of conservatism in our estimates involves the real estate value of Madison Square Garden. We assume the building and land are worth $1 billion, which is right in line with the latest tax assessment. Macy's, which is located just around the corner on a parcel of land about half the size, has been valued by market professionals at $3.3 billion. We acknowledge the buildings are completely different and have different uses, but we suspect the gap between the two is much too large. The company recently announced that it plans to spin off the sports assets from the entertainment and real estate assets in 2019. We believe this will help unlock value, as investors are often reluctant to assign appropriate values to unrelated assets owned by a single holding company. The shares are currently trading at a significant discount to our conservative estimate of the sum-of-the-parts value of the assets. We appreciate your investment in the Portfolio.

Risk Adjusted Returns

Intrepid Capital

Trailing 15 Year Risk/Return

September 30, 2003 to September 30, 2018



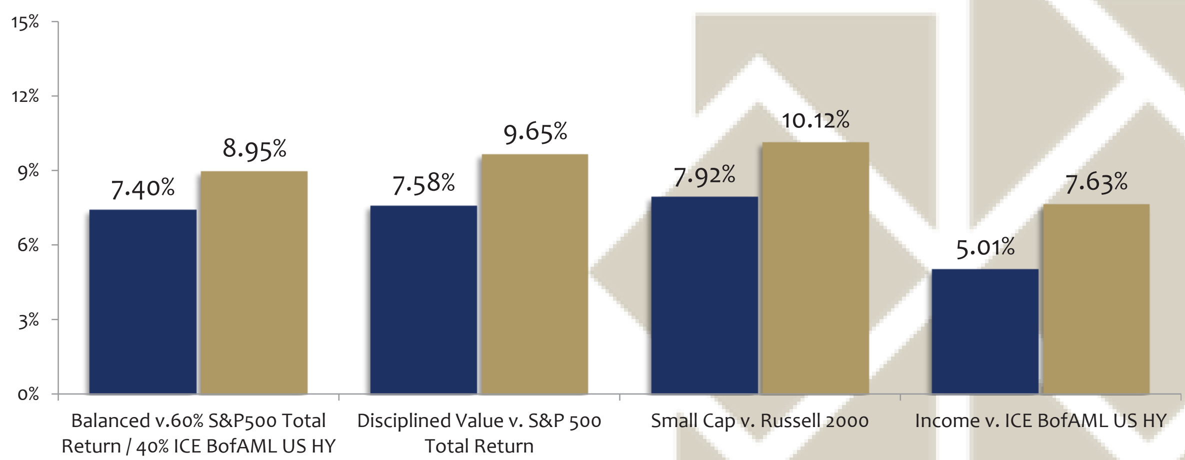
• Past performance is no guarantee of future results. Intrepid composite returns are presented net of investment advisory fees and all returns are presented annualized for the 15-year period ending September 30, 2018. Returns reflect the reinvestment of dividends and other earnings. The volatility of 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 which, through name changes is currently the ICE BofAML US HY.

Annualized Performance

Intrepid Capital

Trailing 15 Year Performance Returns

September 30, 2003 to September 30, 2018



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