Intrepid Capital
MANAGEMENT INC.

4Q 2018

Index Returns	
10/1/2018 to 12/31/2018	
Dow Jones:	-11.31%
S&P 500:	-13.52%
NASDAQ:	-17.29%
Russell 2000:	-20.20%
MSCI EAFE:	-12.54%

QUARTERLY COMMENTARY

January 2019

"What matters isn't how well you play when you're playing well. What matters is how well you play when you're playing badly."

— Martina Navratilova

Dear Friends and Clients,

The fourth quarter of 2018 had some unfortunate similarities to the financial crisis of 2008 subsequent to the bankruptcy of Lehman Brothers. The Russell 2000, a broad-based equity index of U.S. small capitalization businesses, fell just over 20% in this period. As we approached the latter part of December, the trading environment had what I like to call a "get me out" feel, where fear was palpable and anything and everything was sold regardless of price.

Volatility, as measured by the VIX, spiked over 30, a threshold usually associated with market panic, just before Christmas. By the end of the year there was virtually no place on the globe for investors to hide, other than cash and short Treasury bills. Even by mid-November, before the havoc had reached its crescendo, an astounding 90% of the 70 asset classes tracked by Deutsche Bank were negative year-to-date. The synchronized downward spiral broke the previous record set in 1920, when 84% of asset classes posted negative returns, and stood in sharp contrast to 2017, when just 1% of asset classes were in the red.[1]

If you'll recall, 2018 started out with a painful bout of volatility, which caused convulsions in "short-vol" strategies – bets that volatility would remain at historic lows – that had boomed in popularity during the ultra-calm days of 2017. Apart from a few financial products that were forced to liquidate within a few days during "Volmageddon," the U.S. markets shook off the unpleasant episode and resumed climbing until late September, when "risk-off" again became the prevailing attitude.

This latest cluster of volatility, as is often the case, presents investors such as yours truly with an opportunity to distinguish between the price and the value of a security. They are not the same, and we are always interested when the latter is considerably higher than the former. We like to look at periods such as these as an opportunity to restock with higher-quality businesses trading at large discounts to private market value, which is why we have been opportunistic buyers over the last few months. Our intent is to be positioned well for the next up cycle, whenever that occurs.

We believe some of what hurt us this quarter and calendar year in the Intrepid Balanced Portfolio (the "Portfolio") was our desire, as always, not to hug our benchmarks, in an effort to shield shareholders from inevitable severe drawdowns (30-50%) that occur every so often in the equity indexes. I had hoped our attempts to diversify away from the richly valued companies in the S&P 500 would work better than they did. Please keep in mind the Portfolio was down 11.23%, net-of-fees, for the quarter ending December 31, 2018. The Blended Benchmark consisting of 60% S&P 500 Index and 40% ICE BofAML High Yield Index declined 9.98%, the S&P 500 Index declined 13.52% and the Russell 2000 Index declined 20.20% for the same period.

I and others at Intrepid have consistently voiced concerns about the easy money policies of central banks for most of the last decade and the distorted economic incentives created by their collective rate suppression activity. I think we are finally beginning to see the ripple effects of the toxic brew of artificially high prices supported by not only the Federal Reserve in the U.S., but the

[1] Otani, Akane & Wursthorn, Michael. "No Refuge for Investors as 2018 Rout Sends Stocks, Bonds, Oil Lower." *Wall Street Journal.* 25 Nov. 2018.

European Central Bank and Bank of Japan as well. The Federal Reserve has moved from quantitative easing (QE) to Quantitative Tightening (QT) with four quarter point (0.25%) adjustments in the Fed Funds Rate in 2018.

As I have argued in prior communications, if the objective of QE was to support the prices of financial assets, then QT, while not the exact opposite mechanically, must nonetheless create a headwind for asset prices. Add in a potential trade war with China, a change of control in the U.S. House of Representatives, and lest we forget, those timely presidential tweets, and you have a recipe for a high degree of investor uncertainty, something financial markets have historically loathed.

My job, as I see it, is to try to keep a steady hand on the tiller and, in the words of Rudyard Kipling, not lose my head when all about me are losing theirs. The Martina Navratilova quote is appropriate to this situation. My goal continues to be to keep the equity, fixed income, and cash allocation at levels I believe are appropriate to deliver attractive long-term risk-adjusted results. As of December 31, 2018, the portfolio was 54.6% equity, 38.6% fixed income and 6.8% cash.

In light of the difficult fourth quarter capping off a negative return year for both Intrepid and all the major indices, I will start by discussing the detractors to performance; or as I call them with tongue firmly planted in cheek, the "seemed like a good idea at the time" bucket. The portfolio's largest detractors for the quarter ended December 31, 2018 include Net1 UEPS (ticker: UEPS), Protective Insurance (ticker: PTVCB), and Royal Mail (ticker: RMG LN). The portfolio's primary contributors for the same period were Dollar Tree (ticker: DLTR), Teradata (ticker: TDC), and Bemis 6.8% bonds due in 2019.

In November, Net1 UEPS reported 1st quarter earnings that drove the stock down precipitously. As expected, the company's contract with the South African Social Security Agency (SASSA) was successfully terminated at the end of September but the losses from the legacy cost structure of the SASSA contract ate into profitability more than was expected and spooked investors. These losses were made worse by an ongoing legal dispute with the government over how much UEPS should be paid for the final contract extension. Despite the messiness of the transition period Net1 finds itself in and the accompanying first quarter hiccup, we remain bullish on the company.

Protective Insurance recorded a large adjustment to its commercial auto reserve in the quarter, indicating their challenges in this business line are not over. The company is not alone in its struggles with this sector and has been aggressively raising rates in response. In addition, the company's CEO abruptly resigned in October which continued a disappointing trend of executive and board member departures. The selloff, most of which took place after these events, was likely also influenced by general market selling, as well as Protective's exposure to the equity markets via its investment book.

At year-end, the stock was trading at a mere 64% of tangible book value, which matches its trough valuation in the depths of the financial crisis. In perhaps a sign of good news, the company announced in October that it formed a sub-committee to explore opportunities to maximize long-term value, including the possibility of a transaction. We think the company would fetch a valuation far higher than today's price in an acquisition but believe the stock represents a compelling opportunity regardless of whether the board decides to sell.

Royal Mail's shares cratered by 25% in the first two days of the fourth quarter after the company issued a profit warning. Management had reaffirmed their outlook and guidance for the year in July, but the expected productivity improvements that were supposed to boost the bottom line came in significantly below target. The shortfall was a result of residual effects from a labor union dispute earlier in the year and delayed implementation of several cost saving projects, and it had an outsized effect on profitability because of the company's high operating leverage. On the positive side, Royal Mail still generates high amounts of cash and has the best delivery network in the UK, along with a shrinking reliance on letter volumes, which are in secular decline. We still believe the shares are undervalued despite the economic risks facing the business.

Despite the general sense of gloominess in the financial world, there were several positive developments at Intrepid during the quarter that I would like to highlight. Our equity strategies all performed at or near the top of their respective peer groups in the fourth quarter as the market rolled over. Our fixed income strategy, as well as the bond holdings in the Portfolio, performed admirably for both the quarter and the year as our focus on short-duration, high-quality corporate debt paid off as rates rose, credit spreads widened, and investment grade and high yield bond markets fell late in the year. There was no magic bullet to fully insulate investors from the widespread selling of the last few months, but we believe our recent results, in a small way, validate our defensive positioning.

The other silver lining is that we've finally started seeing opportunities to put cash to work, which we've said for several years that we would do if valuations became more reasonable. Most of our strategies were net buyers in the fourth quarter, and we have added a combined nine new holdings firmwide as companies we've been following became attractively priced. If we see more volatility in 2019, I expect this trend to continue, and I am confident that we have a talented and capable team in place to continue turning over rocks in search of undervalued names.

Speaking of the team, we celebrated the addition, or rather re-addition, of Joe Van Cavage, CFA to the "Intrepid brain trust," as I like to call our investment team. Joe worked with us briefly as an analyst in 2010 and rejoined the team in December. He will serve alongside Matt Parker, CFA, CPA in managing the day-to-day operations of the Small Cap Portfolio and has already contributed meaningfully to our collective research efforts.

I am never happy to convey disappointing performance results. However, to earn the higher returns historically offered by the equity markets, we believe investors must endure the drawdowns in prices that occur from time to time, often without a known catalyst. Financial markets are fickle creatures in the short run, and while this past year has not played to our benefit, I have the utmost confidence that buying businesses at a discount to their fair value will continue to be a viable and rewarding investment strategy in the long run. We believe our risk-conscious, valuation-driven process is appropriate for long-term pools of capital.

Thank you for your continued support.

All the best,

Mark F. Travis

President/CEO

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

After a couple quarters of relatively quiet activity in the markets, the fourth quarter jolted investors awake. Stocks fell sharply, credit spreads widened, and volatility surged, as major equity indexes neared or entered bear market territory (defined as declines exceeding 20%) to end the year. As is usually the case with complex, interconnected global financial markets, it's hard to pinpoint exactly which factors caused markets to decline and to what degree. However, the general consensus seems to be that the selling was mostly explained by the concerns of slowing economic growth, continued trade conflict with China, and fear that the "Fed Put" will prove less reliable under Jay Powell than previous Fed Chairs.

After outperforming larger stocks in the first nine months of the year, small cap stocks tumbled in Q4 and ended the year lower than their larger counterparts. The Russell 2000 returned -20.20% in Q4, while the Morningstar Small Cap and S&P Small Cap 600 indexes returned -19.54% and -20.11%, respectively. The 20% decline for the Russell in Q4 was the worst since Q4 2008. Although the quarter would qualify as a bear market by the threshold most market pundits adhere to, it's important to separate price from fundamentals. While the market volatility and sharp decline is reminiscent of 2008/2009, business earnings are still generally strong, and we are not in a recession.

The Small Cap Portfolio ("the Portfolio") significantly outperformed its benchmarks in the quarter thanks to its large position in short-term Treasuries. For the quarter ended December 31, 2018, the Portfolio returned -3.46%, net-of-fees. The only material positive contributor to performance was the position in the iShares Gold Trust (IAU). Gold rallied 7.7% during the quarter as investors flocked toward "safe haven" assets.

The Portfolio's top three detractors for the quarter were Net 1 UEPS Technologies (ticker: UEPS), Protective Insurance Corporation (ticker: PTVCB), and Amdocs (ticker: DOX).

In November, UEPS reported first quarter earnings that drove the stock down precipitously. As expected, the contract with the South African Social Security Agency (SASSA) was successfully terminated at the end of September, but the losses from the legacy cost structure of the SASSA contract ate into profitability more than expected and spooked investors. These losses were exacerbated by an ongoing legal dispute with the government over how much UEPS should be paid for the final contract extension. UEPS also reported that the EasyPay Everywhere (ticker: EPE) service offering was losing members at an alarming rate, primarily because SASSA had illegally force migrated grant recipients off the platform. All of this led UEPS to revise its guidance down.

Despite the first quarter hiccup that drove the stock down, we are still bullish on UEPS. We knew that the transition away from the SASSA contract would be messy, but a few recent announcements have given us hope that the company has turned a corner. First, the government ruled that the grant recipients who had been force migrated off the EPE platform by SASSA should be reinstated. This means EPE will have most of the lost members brought back in January. Additionally, the Constitutional Court in South Africa ruled that SASSA and UEPS should engage directly to finalize remuneration related to the contract extension. The reimbursements should help offset operating losses incurred by the UEPS subsidiary that handled grant payments in the first quarter. Lastly, the company's South Korean payment processing business, KSNET, as well as several of UEPS' balance sheet investments continue to perform well. Combined with a core South African business that is now unencumbered by the SASSA drama, we believe UEPS has troughed, will continue to generate free cash flow, and is primed for growth.

Protective Insurance recorded a large adjustment to its commercial auto reserve in the quarter, indicating their challenges in this business line are not over. The company is not alone in its struggles with this sector and has been aggressively raising rates in response. In addition, the company's CEO abruptly resigned in October which continued a disappointing trend of executive and board member departures. The selloff, most of which took place after these events, was likely also influenced by general market selling, as well as Protective's exposure to the equity markets via its investment book.

At year-end, the stock was trading at a mere 64% of tangible book value, which matches its trough valuation in the depths of the financial crisis. In perhaps a sign of good news, the company announced in October that it formed a sub-committee to explore opportunities to maximize long-term value, including the possibility of a transaction. We think the company would fetch a valuation far higher than today's price in an acquisition but believe the stock represents a compelling opportunity regardless of whether the board decides to sell.

The decline in Amdocs stock was likely due to general market selling. In fact, the -10.85% return for the stock in the quarter was roughly half the Russell 2000's decline. Amdocs continues to chug along and managed to grow sales in Q4 by 2.3% despite a major headwind from its largest customer, AT&T, making the decision to reduce discretionary spending following its acquisition of Time Warner Inc.

We took advantage of the significant market volatility to purchase four new positions during the quarter: Skechers USA, Inc. (ticker: SKX), Sykes Enterprises, Inc. (ticker: SYKE), Protector Forsikring (ticker: PROTCT NO), and Cabot Oil & Gas Corporation (ticker: COG).

Promoted by celebrity brand ambassadors such as Tony Romo and Camilla Cabello, Skechers USA, Inc. (SKX) is the leading US footwear company in the walk, work, casual dress, and casual lifestyle segments. While growth has matured domestically, SKX is expanding quickly overseas and now sources over half of its revenue outside of the US. Despite growth that has seen sales double since 2014, investors have become frustrated that investments to expand distribution overseas have limited bottom-line growth over this period.

They have also become increasingly wary of Skechers' exposure to weakening economic trends in China, which is a major growth engine of the company. We believe a slowing growth profile has been more than priced into the stock – which is down 50% since March – and believe the company could show significantly higher earnings power were it to pull back on its marketing and distribution investments. The stock currently trades at a healthy discount to reasonable valuation assumptions and sports a very strong balance sheet with no debt.

Sykes Enterprises, Inc. (SYKE) is a market-leading outsourced call center operator. SYKE is juggling several issues at the moment, including challenging wage and labor availability trends, a reduction in call volumes at major telecom customers, and low capacity utilization at its domestic call centers. However, these are relatively common occurrences in the call center industry, and SYKE is taking active steps to address them by moving customer programs overseas and rationalizing a large percentage of its US capacity. Margins have already begun to recover to normalized ranges. Like Skechers, SYKE's balance sheet has no debt net of cash.

Protector Forsikring is a Norwegian property & casualty ("P&C") insurer. They write business in a variety of sectors and mostly sell to small and medium-sized corporations and municipalities. The company operates with an extremely low expense ratio, allowing it to undercut competitors on price. This price advantage has helped Protector grow rapidly since it was founded in 2004. Over most of this time, the company delivered excellent underwriting results. However, a recent string of poor results led to a more than 50% selloff in the stock in 2018 and allowed us to establish a position at what we believe is an attractive valuation. The Scandinavian P&C insurance industry is uniquely concentrated among a few firms, which have historically earned excellent returns on equity. If Protector can achieve results similar to the industry average or their historical average - something we think is very realistic - there is likely significant upside in the stock. In December, management announced the company is exiting the business line that has been the main problem area for the company recently, so there is reason to believe the worst is behind them.

Cabot Oil & Gas Corporation (COG) produces over 2% of all the natural gas in the United States out of its Marcellus property in Pennsylvania. We believe it is one of the most high-quality energy companies in the small cap universe, but that because of its focus on natural gas, this has been unrecognized to date by investors. Due to its attractive reserve base, COG is a low-cost producer that expects to grow production over 20% in 2019 while reducing capital expenditures and generating ample free cash flow – a combination of qualities that is highly unusual in small cap energy. Like our other purchases this quarter, the company has also kept an extremely strong balance sheet that introduces almost no credit or liquidity risk to the company.

While the new additions to the Portfolio are very diversified in terms of industry and end market, they all are the type of high-quality, growing businesses that we expect to focus our efforts on going forward. In addition, each purchase in Q4 possesses a very strong balance sheet. While we are not opposed to taking financial risk when priced adequately, companies with higher debt burdens performed very poorly in Q4 as interest rates rose and credit quality concerns emerged. As a result, we are now actively searching for small cap opportunities with stable operating profiles and higher (but still manageable) debt loads, but whose stock prices have fallen significantly and could indicate financial risk has become over-discounted.

For the calendar year ended December 31, 2018, the Portfolio returned -5.03%, net-of-fees, compared to returns of -12.11% and -8.48% for the Morningstar Small Cap and S&P 600 Small Cap Index, respectively. The Portfolio's performance for the full year was hurt by a few securities in Q1, while almost all of the outperformance came in Q4. The top three contributors for the year were Primero Mining convertible bonds (CUSIP 74164WAB2), Syntel (ticker: SYNT), and Crawford & Company (ticker: CRD/A). The top three detractors were Net1 UEPS Technologies (ticker: UEPS), Retail Food Group (ticker: RFG AU) and Protective Insurance (ticker: PTVCB).

As we enter 2019, we are very optimistic about the investing environment for the Small Cap Portfolio. After the major selloff to close out 2018, many of the businesses we follow are finally beginning to trade at prices that represent better buying opportunities. The level of cash in the Portfolio decreased from 82.5% as of September 30, 2018 to 73.4% at year-end. We anticipate gradually reducing this level further over time, especially if volatility continues. At the same time, we are mindful of the length of the current economic expansion and the multitude of risks facing companies. As always, our primary focus remains on capital preservation. Thank you for your investment.

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

The fourth quarter of 2018 was turbulent throughout. Performance was the worst since 2011, with the S&P 500 down 13.52% and the S&P MidCap 400 down 17.28%. The Russell 2000 was pummeled by over 20%, leaving it and most other domestic indices in a bear market. November offered a glimmer of hope that there would be a so-called Santa Claus rally to follow, but December turned out to be one of the worst on record. Investors feared that a looming slowdown in growth may be met with rising interest rates due to monetary policy. At its December meeting, the Federal Reserve announced it was indeed increasing interest rates by 0.25% and signaled further increases may occur in 2019, which spooked markets and resulted in a deeper sell-off into year end. In the days since, the Fed Chairman has tried to back track a bit with a more dovish tone. While this has helped buoy markets to start the new year, we are eager to hear commentary and outlooks from management teams when companies begin to report fourth quarter earnings in the coming weeks. A large deceleration in growth could again spook the markets, as could the failure of a U.S./China trade deal to materialize.

The Intrepid Disciplined Value Portfolio (the “Portfolio”) lost 13.06%, net-of-fees, in the quarter. While we never like to lose money, we were able to outperform our benchmarks and the delta was even more pronounced in the month of December. For the month, the Portfolio was down 7.81%, net-of-fees, compared to declines of 9.03% for the S&P 500, and 11.32% for the S&P Midcap 400. We were able to put some cash to work during the quarter, but we were not overly aggressive in doing so. We find it prudent to keep some dry powder at current valuations so we can take advantage of extreme dislocations should prices continue to fall.

The top contributors to performance in the fourth quarter were Dollar Tree (ticker: DLTR), Party City (ticker: PRTY), Teradata (ticker: TDC), and iShares Silver Trust (ticker: SLV). We have written about Dollar Tree in the past, including last quarter when we increased our position in the retailer. The equity materially outperformed the market in the quarter, returning almost 11%. Its business tends to do well in recessions, which may be one of the reasons investors viewed it as a “safe haven” while the broader market sold off. In early January a well-known activist hedge fund disclosed a stake in the company and made public a letter it sent to the Board of Directors urging change. The two major changes it believes will unlock value are an outright sale of Family Dollar and for Dollar Tree to introduce price points above $1.00. We are advocates of the proposed changes and agree that the shares would likely re-rate higher if either or both are undertaken.

Party City is a new position for the Portfolio. The company is the largest party goods retailer in North America with about 900 locations. It isn’t just your average retailer, as its business is vertically integrated with wholesale and manufacturing operations as well. We purchased shares when it was trading for about 6x earnings after reporting disappointing quarterly results.

The company is facing supply chain disruptions in China as importers race to make purchases ahead of a potential 25% tariff. Labor shortages and higher freight costs negatively impacted the company, but we believe that these issues will be resolved in the near future. The other unusual situation is a helium shortage that has resulted in prices 15% - 25% above normal. This may not seem like a big deal, but Party City has about 60% market share in metallic balloons, and it is a key segment of their business. Helium shortages happen from time to time with the last being in 2012/2013. Our view is that this too will be resolved soon.

Management has signaled their confidence by putting their corporate and personal money where their mouth is; not only did the company announce a $100 million share repurchase program, but the CEO recently purchased ~$1 million in shares in the open market. While the company carries a debt load that exceeds what we are typically comfortable with, it also generates a substantial amount of free cash flow, which will help to pay down debt in the coming years.

We have written about Teradata in the past and continue to view its prospects favorably. The company is at an inflection point in our opinion. We should begin to see financial metrics improve after having been under pressure due to a transition from a licensing model to a subscription model. It will not happen overnight, but we continue to believe shares are undervalued based on normalized earnings and free cash flow.

The top detractors in the quarter were Apple (ticker: AAPL), Protective Insurance Corp (ticker: PTVCB), and Laboratory Corp of America (ticker: LH). In November, Apple provided forward guidance that was below expectations and sent a cautious tone to the overall macro environment. Management disclosed that it will no longer break out its iPhone units going forward. This was bad timing as unit growth had stalled in the quarter, prompting some investors to wonder if they are trying to hide an imminent downturn in iPhone sales. We had sold a small portion of our position prior to the announcement but did not foresee a drop in share price of the magnitude experienced. We continue to believe that its fast-growing services segment will help to fuel profitability, as will new product launches and entry into new categories like health.

Protective Insurance continues to experience challenges in its commercial auto business. This is not a company-specific issue, as others in the business are struggling similarly. In response, Protective has been aggressively increasing rates, but that did not prevent it from recording a large adjustment to its reserves this quarter. To make matters worse, the CEO abruptly resigned in October, adding to a growing list of departures of executives and board members.

The shares remain very cheap at only 64% of tangible book value, matching the company's trough valuation during the financial crisis. We contend that the shares are worth significantly more than where they trade today and were pleased when the company announced in October that it had formed a sub-committee to explore opportunities to maximize value, often a precursor to an eventual sale.

Labcorp had a rough fourth quarter as industry headwinds became too much to overcome. The company's largest segment experienced a deceleration to almost flat organic growth, driven by a slowdown in the consumer genetics business, 23andMe. The company lowered expectations for this year and next, which sent shares lower. Labcorp's main competitor was not immune to the industry headwinds and is experiencing similar growing pains. We are more cautious on shares now that organic growth in its diagnostics business is minimal, as we are concerned that the deceleration may be structural in nature. That said, the Covance business is growing quickly and accounts for about 30% of operating income, which should help to offset some of the weakness in the core business.

The pullback in the market was broad and left few companies unaffected. We believe the steep sell-off just before Christmas may have been exacerbated by normal year-end dynamics – traders and decision makers out of the office, low trading volume, tax loss selling in some underperforming names, and fund redemptions causing forced sellers (particularly in some ETFs). As a result, we think some securities were unjustly punished. Right now, we are seeing more attractive opportunities than we have seen in a few years. We are busy combing through the rubble to find high-quality businesses at good prices. We look forward to checking back in next quarter. Thank you for your investment.

INCOME PORTFOLIO – COMMENTARY BY MARK TRAVIS, PRESIDENT/CEO, CO-PORTFOLIO MANAGER & BEN FRANKLIN, CO-PORTFOLIO MANAGER

It has been an interesting year in the credit markets, capped off by a volatile fourth quarter. While the equity markets were being beaten down over the last few months of the year, bonds did not go unscathed. Although U.S. Treasuries were mildly positive for the quarter, both investment grade and high yield corporate bonds had negative returns. There are myriad issues daunting today's debt investors. High leverage and rising rates are only the tip of the iceberg, and we have observed several other developments beneath the surface worthy of our attention.

Despite being a perceived "safer" asset class, leveraged loans underperformed and saw precipitous outflows during the quarter as investors began to reconsider the loose contract provisions they had agreed to over the past few years. These "covenant-lite" contracts greatly limit the recourse a loanholder has if a company does something damaging for existing debtholders, like issue more debt or go on a spending spree. It doesn't help that the owners of the companies that issue these leveraged loans are often large private equity sponsors with no concern for the debtholders. Time and time again we've seen these sponsors bankrupt companies, fleece debtholders, then perform another leveraged buyout a few months later. Caveat emptor.

The collateral behind those leveraged loans has also become a concern. As one money manager put it, "You think you're secured by a Cadillac, but three years from now, it turns out you've got a Chevy." Discounts on new loans have widened to the most in almost three years. We are observing these moves with great interest, as there do exist leveraged loans with reasonable covenants, reliable ownership, and good credit situations that now look attractive.

In December, a portion of the yield curve inverted (long-term rates were lower than short-term rates) for the first time in over ten years. The yield curve is followed closely by investors as a potential indicator of pending recessions, as all of the last nine recessions have been preceded by an inversion. The inversion indicates to us that investors are finally starting to appreciate what life might be like without cheap credit and easy money as the Fed continues to raise rates and de-lever its balance sheet.

We would note that, as of today, only a few commonly followed spreads on the yield curve have gone negative. The 2-to-10-year spread is the most closely followed harbinger of an impending collapse and has yet to invert. We would also note that no single metric has complete predictive power. We are not relying on the inversion of the yield curve as a crystal ball that a recession is around the corner, but we are also happy to be invested primarily in high-quality, serviceable debt with near-dated maturities that we believe position us well were a crash to occur.

High yield debt is currently in one of the longest issuance droughts on record. This is the first December without a single junk-bond sale since 2008. Volatility in markets, uncertainty about the economy, and a drop in oil prices are discouraging riskier companies from issuing debt. These companies, which are often very highly leveraged as a multiple of their cash flow, need ready access to credit markets in order to refinance debt that is coming due or just to fund their operations. As rates continue to march higher, the cost of capital for these companies will also increase, making it harder to service their debt, let alone earn an attractive return. In short, there are storm clouds gathering over those companies that have relied on cheap credit as their growth engine over the past decade.

Before getting into performance, we wanted to note an important update about the management of the Intrepid Income Portfolio ("the Portfolio"). As of November 13th, Jason Lazarus no longer serves as lead portfolio manager of the Portfolio. We are grateful for the diligence and discipline he contributed while at Intrepid and wish him all the best in the next chapter of his career. Going forward, Mark Travis and Hunter Hayes will serve as co-lead portfolio managers of the Portfolio.

Investment grade corporate bonds returned a tepid -0.06% for the quarter, as measured by the ICE BofAML US Corporate Index. The lower quality ICE BofAML US High Yield Index saw a drop of -4.67%. Given the Intrepid Income Portfolio's shorter duration and higher quality biases, we also cite the performance of the ICE BofAML 1-5 Year BB-B Cash Pay High Yield Index, which returned -2.61% in the quarter. We saw a reversal of last quarter, when weaker credit quality generally produced the best returns, with CCC-rated issues this quarter returning -10.35%.

The Income Portfolio returned -0.47%, net-of-fees, in the fourth quarter. We continued to look for short-term investment grade bonds that we believe will produce attractive risk-adjusted returns relative to Treasury bills. Last quarter that worked against us, but this quarter it offered some cushion from the turmoil that roiled lower-rated issues. We are judicious about our high yield holdings and look for issues on the higher end of the quality spectrum. Although we don't ever like losing money, we are pleased with the performance this quarter relative to our benchmarks, and believe we are well positioned for 2019.

The Portfolio's top contributors for the quarter were U.S. Treasuries, Ecolab Inc. 2.0% due 1/14/2019, and Sherwin Williams Co. 7.25% due 6/15/2019. The Portfolio's top detractors for the quarter were Donnelley Financial Solutions Inc. 8.25% due 10/15/2024, Consolidated Tomoka Land Co. 4.5% due 3/15/2020, and FirstCash Inc. 5.375% Notes due 6/01/2024.

None of the contributors for the quarter were material. The detractors were down because of the broader sell-off in higher-beta credit names, not because of any credit-specific issues, and weren't down meaningfully. We believe these detractors also traded off because of forced year-end selling and a lack of liquidity. For the most part, the Portfolio continued to clip coupons for three months despite the slight drop in principal for our higher yielding holdings.

For the year, investment grade corporate bonds returned -2.25% as measured by the ICE BofAML US Corporate Index. The lower quality ICE BofAML US High Yield Index fell 2.26%. The ICE BofAML 1-5 Year BB-B Cash Pay High Yield Index returned 0.69% for the year, reflecting the market's preference for shorter-term maturities and newfound disdain for the lowest-rated, riskiest credits, which are exempted from this relatively well-performing index.

The Income Portfolio returned 0.68%, net-of-fees, for the year. We were able to outperform by shifting into higher-quality credits, limiting duration, and avoiding some of this year's land mines. Our top contributors for the year were Primero Mining Corp. 5.75% due 2/28/2020, FTI Consulting Inc. 6.0% due 11/15/2022, and U.S. Treasuries. Our top detractors for the year were Retail Food Group common stock (ticker: RFG AU), Corus Entertainment common stock (ticker: CJR/B CN), and Consolidated Tomoka Land Co. 4.5% due 3/15/2020. We have written in previous letters about these contributors and detractors.

We argue there is a vital need for active management in this sort of fixed income environment. Passive index funds for debt securities appear to function tolerably well in times of low volatility but are not designed for the sort of volatility we have been experiencing lately, in our opinion. Many fixed income ETFs had major drawdowns in December. When there are outflows in these products, traders have to liquidate bonds and loans in order to meet redemptions. This can be a problem given that liquidity in many of these securities is extremely thin, and price discovery sometimes takes a while to play out. Hence, the forced sale often leads to a significant haircut to the price one would expect to get in orderly circumstances. We saw the inklings of forced selling play out in December, but it could get a lot worse with an even larger drawdown. We prefer to be the ones buying these discounted securities at clearance-level prices.

We remain vigilant in seeking to preserve your capital during this volatile period. We believe the best place to be right now is in high-quality, liquid credit with short-term maturities. There are exceptions, of course, but we are being very selective about adding anything with risk or duration. As prices continue to gyrate, and our short-term maturities come due, we will reassess the risk/reward opportunities that the market is offering and selectively move into higher-risk debt securities when it makes sense. As always, our top priority is generating stable, reliable income and avoiding any situations that put your hard-earned principal at risk. We are proud of the fact that we have never had a credit holding default in the Portfolio. We will continue to follow a rigorous process to find attractive fixed income investments and be exceptionally discerning when lending businesses money. Thank you for your investment.

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

The fourth quarter of 2018 was a tumultuous one, with virtually every asset class taking it on the chin. While interest rates took a lot of the blame for weak performance domestically, the narrative internationally was about trade wars, Brexit, and debt problems in Italy. The MSCI EAFE Index (the "Index") declined 12.54% in the quarter, compared to the Intrepid International Portfolio's (the "Portfolio") decline of 12.04%, net-of-fees. Smaller companies, which currently make up the bulk of the Portfolio, performed worse, with a fall of 16.05%, as measured by the MSCI EAFE Small Cap Index.

While we slightly outperformed the Index in the quarter, this was not the result we had hoped for. In the early part of the calendar year, the Portfolio suffered due to a few bad calls, but we don't feel like this was the case for the fourth quarter. Instead, in many cases there was positive fundamental news that did not coincide with positive developments in the stock price. Everything suffered, fundamentals be damned. We will review some of these positions below. We took advantage of the market's decline, and the Portfolio is now more invested than it has been at any time in its history.

The securities that were the largest detractors in the fourth quarter include Coventry Group (ticker: CYG AU), Hornbach Baumarkt (ticker: HBM GR), and Net 1 UEPS Technologies (ticker: UEPS). Most securities in the Portfolio were detractors, but there were a few positive contributors, including Noranda Income Fund (ticker: NIF-U CN), Corus Group (ticker: CJR/B CN), and Aegean Airlines (ticker: AEGN GA).

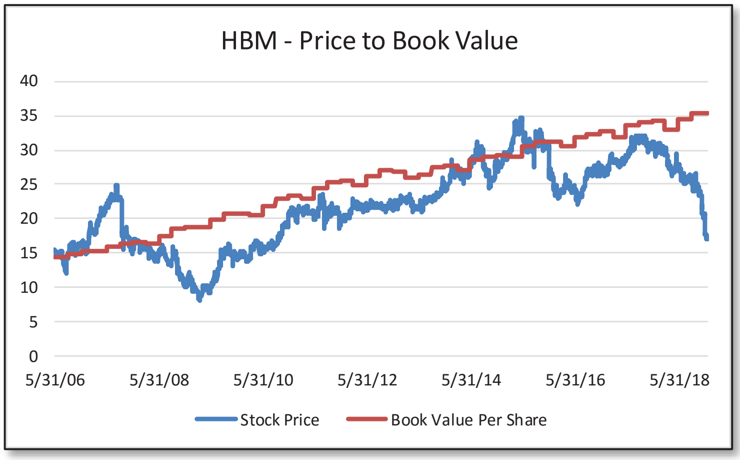
Coventry Group is an Australian supplier of fasteners. The share performance has been unjustifiably weak in our opinion. On October 5th the company raised AUD $15 million via an equity offering at AUD $1.15 per share. Fast forward three months, and at the end of the year these shares were priced at an AUD 73 cents in the Portfolio. Over those few months, there has been no real news and trading in the shares has been thin, with only about AUD $300,000 being traded, or about 2% of what was raised in October.

On October 4th, one day before the equity offering was listed, Coventry's shares traded at A$1.245 per share, resulting in a market cap of A$47 million. Even after the A$15 million raised, the current market cap is now only A$37 million. If we remove the A$15 million raised, the underlying market cap of the existing business is only A$22 million. The liquid assets on the balance sheet alone more than support this value. As of the most recent reporting period, Coventry had A$82 million in current assets and A$38 million in *total* liabilities. Current assets minus total liabilities was A$44 million, or about twice the underlying market cap. These current assets consist entirely of receivables, inventory, and cash. To us, this is completely irrational. This is a company that increased revenue 9% in its most recent reporting period, and as of their most recent announcement this momentum has continued. The business is on track to be profitable in 2019.

The equity raise is not a concern to us, either. Just over A$10 million of the proceeds were used to purchase a similar business that caters to a different client base. At 4x EBIT, the acquisition price could hardly be considered high, and the new business diversifies Coventry's customer base to less cyclical end markets such as agriculture and defense. To recap, the company has been growing, news has been positive, investors were willing to supply them with additional capital, yet the share price declined significantly on little volume.

Hornbach Baumarkt is a German DIY retailer that reported weak earnings during the quarter. The weakness was due to increased procurement costs, primarily in building materials, that they were not able to pass on to customers. While this was a negative, we believe Hornbach and its competitors will eventually raise prices to offset the weakness. Furthermore, the company has been growing; comparable store sales in the most recent quarter increased over 6%.

While the quarter's results were likely responsible for the near-term weakness in the stock price, we believe the shares are trading at a cheap price relative to their intrinsic value. We don't typically value businesses based on price-to-book value, and especially not retailers due to the hidden liability of operating leases. However, Hornbach owns a great deal of their real estate, and most of the leases they do have are with their parent company Hornbach Holdings, which we believe would be a friendly negotiator in the unlikely event the company was not able to pay rent. Price to book value can thus provide some insight into how cheaply the shares are trading relative to where they have traded historically. The stock currently trades at about half of book value, the lowest multiple since 2009. Furthermore, the company has grown adjusted book value by 13.5% annually since 2006.



We believe one reason for the weakness in the stock price is that Hornbach has invested heavily into its digital offering, with much of this investment flowing through the income statement in the form of higher costs. These costs reduce book value, even though they are likely adding economic value in the long run. Each year as the company has grown, it has reinvested more and more of the profits, making reported earnings appear flat. The company now has the largest digital market share of the DIY market in Germany. We believe management's online investment is a sound strategy, but it has not yet shown up in the fundamentals. Management has recently discussed reviewing digital costs, and we believe any flattening or reduction in spending will filter directly to the bottom line.

As we have discussed in previous letters, our thesis on UEPS is that the company would thrive after ending its embattled contract with the South African Social Security Agency (SASSA). We believed the market did not recognize UEPS' earnings power outside of this large contract and that the company was trading at a low single-digit multiple of its prospective earnings. We also believed the market was not giving the company credit for its balance sheet investments, which the company has poured more cash into over the past few years than its current market cap.

In November, the company reported 1st quarter earnings that drove the stock down precipitously. As expected, the contract with SASSA was successfully terminated at the end of September, but the losses from the legacy cost structure of the SASSA contract ate into profitability more than expected and spooked investors. These losses were exacerbated by an ongoing legal dispute with the government over how much UEPS should be paid for the final contract extension. UEPS also reported that the EasyPay Everywhere (EPE) service offering was losing members at an alarming rate, primarily because SASSA had illegally force migrated grant recipients off the platform. All of this led UEPS to revise its guidance down.

Despite the 1st quarter hiccup that drove the stock down, we are still bullish on UEPS. We knew that the transition away from the SASSA contract would be messy, but a few recent announcements have us hopeful the company has turned a corner. First, the government ruled that the grant recipients who had been force migrated off the EPE platform by SASSA should be reinstated. This means EPE will have most of the lost members brought back in January. Additionally, the Constitutional Court in South Africa ruled that SASSA and UEPS should engage directly to finalize remuneration related to the contract extension. This reimbursement should help offset the operating losses incurred by the UEPS subsidiary that handled grant payments in the 1st quarter. Lastly, the company's South Korean payment processing business, KSNET, as well as several of UEPS' balance sheet investments, continue to perform well. Combined with a core South African business that is now unencumbered by the SASSA drama, we believe UEPS has troughed, will continue to generate free cash flow, and is primed for growth.

Noranda Income Fund is a Canadian zinc smelter that is well positioned to take advantage of a change in pricing dynamics in the industry. For the current year, we estimate the company gets paid a locked-in treatment charge of somewhere between $40 and $50 per ton of concentrate processed. Recent treatment charges have been some of the lowest in history. Noranda is currently in talks to negotiate its price for the upcoming year, and market prices are more than double the current contracted price. While the final negotiated price will likely be lower than the current market price, we believe it will be materially higher than what they were paid this year. The shares increased nearly 11% in the quarter in local currency, but at a closing price at December 31st of CAD $1.30, we believe they are still significantly undervalued. The net assets of the company were C$4.75 per share as of the most recent quarter, including land with a market value that is likely substantially higher than its accounting value on the books.

Corus Entertainment is a Canadian media company with top-tier content in both the Children's and Women's markets. There was nothing especially promising about the business in the quarter; rather, we believe the shares have been taking it on the chin so long that there were simply no sellers left.

Aegean Airlines S.A. (AEGN SA) is a Greek regional airline. The descriptor "Greek airline" alone is probably enough to turn most investors off, but we would urge our readers not to judge this book by its cover. After acquiring its main competitor in 2013, the company has a dominant share of the domestic market. Despite the well-publicized economic challenges facing Greece, the company has managed to deliver good results by expanding the number of international routes it operates. And while many Greek businesses have struggled, the tourism industry has been a rare bright spot. International passenger traffic to Greece has been very strong, and we think it's likely this can continue.

In addition, we have observed the airline industry become much more rational with respect to capacity allocation in recent years. For decades, airlines expanded capacity in good times, leading to supply gluts and a notorious boom-and-bust industry dynamic. However, management teams today appear to be much more disciplined and focused on returns on capital.

Over a third of the stock is held by Chairman Eftichios Vassilakis, who also appears to manage day-to-day operations. The airline has performed well under his leadership, and we are happy to have his interests aligned with ours. Perhaps most importantly, the price of the stock is very cheap. The P/E is less than 8x, but a pile of cash on the balance sheet has led to an EV/EBIT less than 2x. We think the small gains since our purchase can be explained by a solid tourism season announced in the Q3 earnings report, as well as the recent decline in oil prices.

While not a top contributor or detractor, another interesting stock in the Portfolio is Berentzen-Gruppe (ticker: BEZ GR). The company is a German beverage producer, selling both alcoholic and non-alcoholic drinks. During the fourth quarter the company reported a 4.4% increase in revenue and a 68% increase in operating earnings. The stock fell nearly 10% for the period. We point Berentzen out as a company that we believe has a stable top line, improving earnings, and cheap valuation, yet the stock price still fell. We purchased more of this security during the quarter.

Legendary investor Howard Marks recently wrote a book called "Mastering the Market Cycle." The book includes one of the better explanations of risk we have heard: "The risk in investing doesn't come primarily from the economy, the companies, the securities, the stock certificates or the exchange buildings. It comes from the behavior of the market participants. So do most of the opportunities for exceptional returns."

Over the last several years, we have argued that market participants have bid up prices to a risky level, especially in larger companies. As markets have declined, we think there are "opportunities for exceptional returns." However, we are still finding them primarily in smaller companies. In fact, the largest decile in the Index, as measured by market cap, outperformed every other decile by a minimum of 2% in the fourth quarter.

For most of the larger companies in the Index, we are still pessimistic. In fact, other investors have occasionally harangued us to be more optimistic. There are reasons to be so. In Marks's book he describes skepticism: "Skepticism and pessimism aren't synonymous. Skepticism calls for pessimism when optimism is excessive. But it also calls for optimism when pessimism is excessive."

Using that definition, I would say that I am optimistic about many smaller international companies, especially the ones in the Portfolio. As some of our existing holdings have fallen, we have taken the opportunity to purchase more shares – in some cases, aggressively so. As of December 31, 2018, cash and equivalents represented about 12% of the Portfolio's assets. This is the lowest cash has been in the history of the Portfolio, which is due to our belief that there are more undervalued stocks in the market than there have been since the inception of the Portfolio. This is how we express our…optimism.

Markets could fall a great deal farther. Some of our stocks may fall as well. We will likely take this opportunity to make additional purchases. For the most part, we don't believe the fundamentals of our existing holdings have deteriorated. In some cases, we are fairly certain of this. Prices are low, and our conviction level is high. While the past year has been a bumpy ride with prices, as long-term investors in businesses we're happier than we've been in a long time. Thank you for your investment.

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

The fourth quarter of 2018 was painful for many small cap investors. Most major domestic indices entered bear markets and the Russell 2000 was no exception as it plummeted 20.20% in the quarter. The Intrepid Select Portfolio (the "Portfolio") was not immune to the violent drop but fared better with a 14.64%, net-of-fees, decline.

October set the tone for the quarter with wild swings in prices amid increased volatility. November offered a glimmer of hope that there would be a so-called Santa Claus rally to follow, but December turned out to be one of the worst on record. Investors feared that a looming slowdown in growth may be met with rising interest rates due to monetary policy. At its December meeting, the Federal Reserve announced it was indeed increasing interest rates by 0.25% and signaled further increases may occur in 2019, which spooked markets and resulted in a deeper sell off into year end. In the days since, the Fed Chairman has tried to back track a bit with a more dovish tone. While this has helped buoy markets to start the new year, we are eager to hear commentary and outlooks from management teams when companies begin to report fourth quarter earnings in the coming weeks. A large deceleration in growth could again spook the markets as could the failure of a U.S./China trade deal to materialize.

The top contributors to performance in the fourth quarter were Omnicom Group (ticker: OMC), Dollar Tree, Party City (ticker: PRTY), and gold and silver ETFs. Omnicom operates in the advertising, marketing, and corporate communications business. Its clients include many Fortune 500 companies, as well as large international businesses. The industry has been under fire recently as advertising budgets have been cut and brands have shifted a larger portion of their spend to digital mediums. Omnicom has done a better job than many of its competitors in adapting to the new landscape. We like the resiliency the industry has displayed over many decades and the fact that Omnicom generates a large amount of free cash flow.

We have been owners of one or more of the publicly traded dollar stores at Intrepid for a long period of time. Dollar Tree operates under its namesake banner, as well as the Family Dollar brand, which it acquired a few years ago. The equity materially outperformed the market in the quarter, returning almost 11%. Its business tends to do well in recessions, which may be one of the reasons investors viewed it as a "safe haven" while the broader market sold off. In early January a well-known activist hedge fund disclosed a stake in the company and made public a letter it sent to the Board of Directors urging change. The two major changes it believes will unlock value are an outright sale of Family Dollar and for Dollar Tree to introduce price points above $1.00. We are advocates of the proposed changes and agree that the shares would likely re-rate if either or both are undertaken.

Party City is a new position for the Portfolio. The company is the largest party goods retailer in North America with about 900 locations. It isn't just your average retailer, as its business is vertically integrated with wholesale and manufacturing operations as well. We purchased shares when it was trading for about 6x earnings after reporting disappointing quarterly results. The company is facing supply chain disruptions in China as importers race to make purchases ahead of a potential 25% tariffs. Labor shortages and higher freight costs negatively impacted the company, but we believe that these issues will be resolved in the near future.

The other unusual situation is a helium shortage that has resulted in prices 15% - 25% above normal. This may not seem like a big deal, but Party City has about 60% market share in metallic balloons. Helium shortages happen from time to time, with the last being in 2012-2013. Our view is that this too will be resolved soon.

Management has signaled their confidence by putting their corporate and personal money where their mouth is; not only did the company announce a $100 million share repurchase program, but the CEO recently purchased ~$1 million in shares in the open market. While the company carries a debt load that exceeds what we are typically comfortable with, it also generates a substantial amount of free cash flow, which will help to pay down debt in the coming years.

The top detractors in the quarter were Net 1 UEPS Technologies (ticker: UEPS), Protective Insurance Corp (ticker: PTVCB), and Laboratory Corp of America (ticker: LH). We substantially cut our position in Net 1 UEPS after it reported disappointing quarterly results. The situation is complex, so we would encourage you to read a more detailed explanation of the situation in the Intrepid International Portfolio's commentary. The bottom line is that we think the shares are worth significantly more than where they are today, but it is not without risks that need to be weighed.

Protective Insurance continues to experience challenges in its commercial auto business. This is not a company-specific issue, as others in the business are experiencing similar issues. In response, Protective has been aggressively increasing rates, but that did not prevent it from recording a large adjustment to its reserves. It gets worse, as the CEO abruptly resigned in October, which added to a growing list of departures of executives and board members. The shares remain very cheap at only 64% of tangible book value, matching their trough valuation during the financial crisis. We contend that the shares are worth significantly more than where they trade today and were pleased when the company announced in October that it had formed a sub-committee to explore opportunities to maximize value, often a precursor to an eventual sale.

Labcorp had a rough fourth quarter as industry headwinds became too much to overcome. The company's largest segment experienced a deceleration to almost flat organic growth driven by a slowdown in the consumer genetics business, 23andMe. The company lowered expectations for this year and next which sent shares lower. Labcorp's main competitor was not immune to the industry headwinds and is experiencing similar growing pains. We are more cautious on shares now that organic growth in its diagnostics business is minimal as we are concerned that it may be structural in nature. That said, the Covance business is growing quickly and accounts for about 30% of operating income, which should help to offset some of the weakness in the core business.

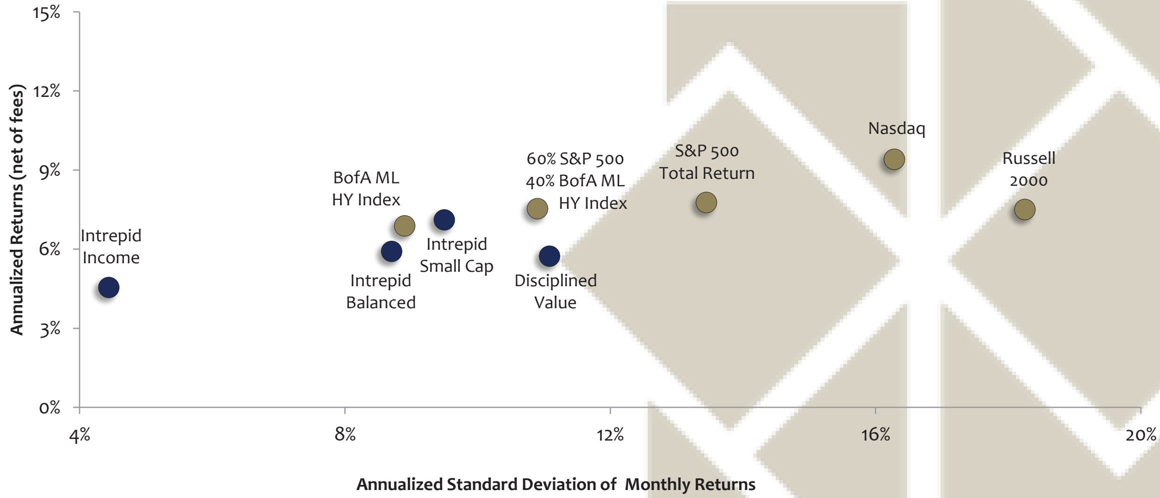
The pullback in the market was broad and left few companies unaffected. We believe the steep sell-off just before Christmas may have been exacerbated by normal year-end dynamics – traders and decision makers out of the office, and low trading volume, tax loss selling in some underperforming names, and fund redemptions causing forced sellers (particularly in some ETFs). As a result, we think some securities were unjustly punished. Right now, we are seeing more attractive opportunities than we have seen in a few years. We are busy combing through the rubble to find high-quality businesses at good prices. We look forward to checking back in next quarter. Thank you for your investment.

Risk Adjusted Returns

Intrepid Capital

Trailing 15 Year risk/return

December 31, 2003 to December 31, 2018



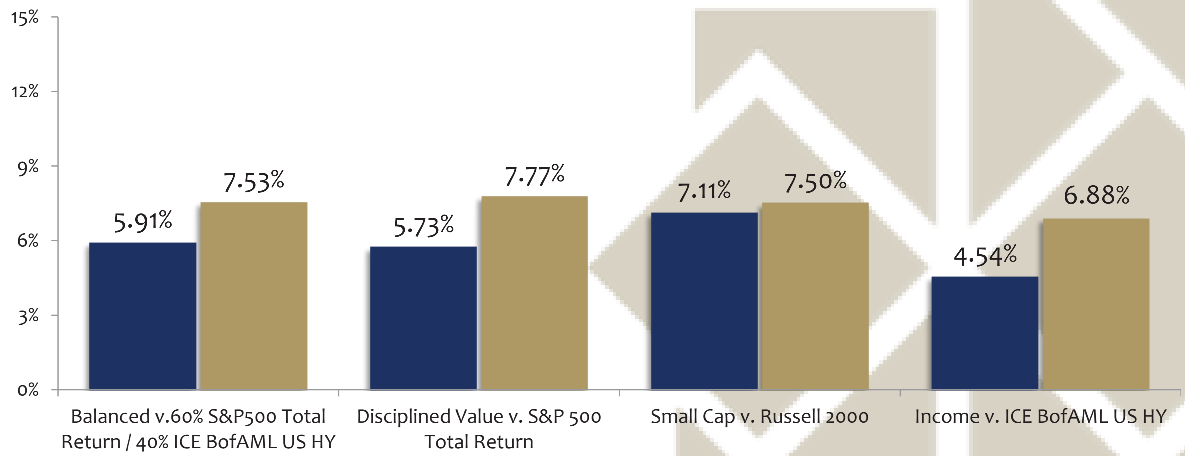
• Past performance is no guarantee of future results. Intrepid composite returns are presented net of investment advisory fees and all returns are presented annualized for the 15-year period ending December 31, 2018. Returns reflect the reinvestment of dividends and other earnings. The volatility of 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

December 31, 2003 to December 31, 2018



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