INTREPID CAPITAL

2Q 2020

Index Returns	
3/31/2020 to 6/30/2020	
Dow Jones:	18.51%
S&P 500:	20.54%
NASDAQ:	30.95%
Russell 2000:	25.42%

QUARTERLY COMMENTARY

July 2020

Dear Friends and Clients,

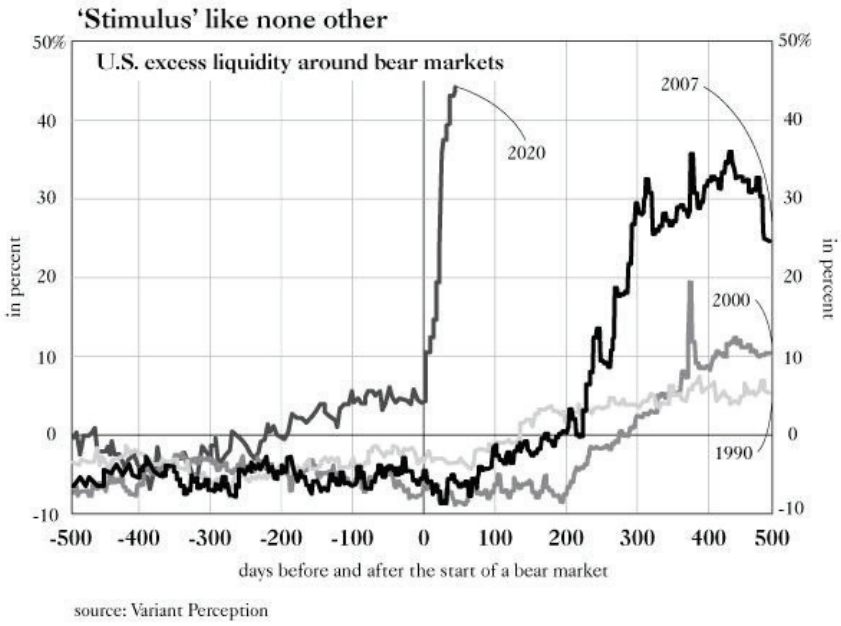
"At the present time there is more danger that criminals will escape justice than they will be subjected to tyranny."

— Oliver Wendell Holmes, Jr.

I often listen to Spotify music as I write. Somewhat ironically, Edwin Starr's song "War," the Vietnam Era song with the refrain "war, what is it good for, absolutely nothing," is currently playing.

Well, from a historical perspective it sure seems like 1968 all over again. That year we had the assassinations of both Martin Luther King, Jr., and Robert F. Kennedy. Lest we forget, there was rioting at the Democratic National Convention in Chicago, along with protests over racial inequality by Olympic medalists at the games in Mexico City. Let us just say it was a time of great unrest. Sounds familiar!

In the financial markets, we swung from "the worst of times" in the first quarter of 2020 to "the best of times" in the second quarter of 2020 as U.S. equity markets posted one of the best quarterly returns in the last 20 years. This, in my opinion, in the face of the COVID-19 pandemic and subsequent slow down along with the aforementioned social unrest, is largely the result of massive support from the Federal Reserve (see chart below).



The capitalization-weighted S&P 500 belies the underlying carnage that many U.S. share prices have suffered this calendar year.

In my last communication, I indicated we were using the 30% downdraft in prices to do two things: upgrade the quality of businesses we own and search for those with impeccable balance sheets.

Below are a few of the securities that fit those parameters along with their respective acquisition dates, which shows our willingness to commit capital during heightened volatility. There is

some academic support showing the long-term value creation from purchases during high volatility (VIX > 30), which we have certainly had since the pandemic erupted.

Date:	Business:	Ticker:
3-3-20	Accenture	ACN
3-3-20	IAC Interactive	IAC
3-12-20	Visa	V
3-16-20	Mastercard	MA
3-18-20	Alphabet	GOOGL

Several of these acquisitions made during the height of the COVID-19 pandemic sell-off helped lead performance in the second quarter.

At this point, with an election later in the year and the Federal Reserve continuing to provide massive amounts of liquidity to the financial markets, the bias for stock and bond prices will be up. Keep in mind, the last time the Federal Reserve started removing liquidity and raising rates (December 2018) the markets went berserk (i.e. down).

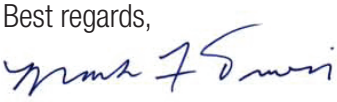
We will continue to focus on three things at Intrepid Capital that have helped lead to long-term value creation: (1) free cash flow generation, (2) strong balance sheets, and (3) rational business valuations. We believe this will lead to attractive risk-adjusted results in the future.

For the quarter ended June 30, 2020, the Intrepid Balanced Portfolio (the "Portfolio") increased 12.31%, net-of-fees, compared to the combined Benchmark's (60% S&P 500 Index/40% Bloomberg Barclays US Gov/Credit 1-5 Yr Index) return of 12.85% during the period. The Portfolio's top contributors for the quarter were IAC Interactive (ticker: IAC), Skechers (ticker: SKX), Electronic Arts (ticker: EA), Accenture (ticker: ACN), and Dollar General (ticker: DG). The Portfolio's top detractors for the quarter were CTO Realty Growth (ticker: CTO), FRP Holdings (ticker: FRPH), Realogy 5.25% due 12/2021, Great Western 9.00% due 9/2021, and Berkshire Hathaway (ticker: BRK/B).

To conclude, let us hope we continue to make progress toward a COVID-19 vaccine and contain the virus the best way we can until then. Stay safe.

I hope you had a happy 4th of July! God Bless America!

Best regards,



Mark F. Travis
President/CEO

SMALL CAP PORTFOLIO – COMMENTARY BY JOE VAN CAVAGE, CFA, CO-PORTFOLIO MANAGER AND MATT PARKER, CFA, CO-PORTFOLIO MANAGER

Today marks three months since we sat down to write our last quarterly commentary after a shockingly volatile first quarter. As if déjà vu, we find ourselves in a similar place to where we wrote the last letter. Coronavirus cases are spiking again in certain regions. State governments have started closing down businesses (currently bars in Texas and Florida). Markets have declined. We are even sitting in the same chairs.

While we ended with similar trends, that was not indicative of how the quarter actually went. After experiencing what was the sharpest market crash ever in the first calendar quarter, this past quarter experienced the biggest 50-day rally in market history.

The Intrepid Small Cap Portfolio (the "Portfolio") participated in this rally, returning 19.00%, net-of-fees, in the quarter versus 25.49% for the Morningstar Small Cap Index benchmark. For the first six months of calendar 2020, the Portfolio returned -6.43%, net-of-fees, vs. -14.17% for the benchmark.

Contributors & Detractors

The Portfolio's top three contributors to performance for the quarter were Ollie's Bargain Outlets (OLLI), Skechers (SKX) and IAA (IAA). Each of these companies experienced a negative impact to their business from the economic shutdown, but the stocks rallied hard as investor optimism returned and states began re-opening their economies. There were only two stocks that were material detractors during the quarter – Crawford & Company (CRD) and Hanesbrands (HBI).

Volatility

This Portfolio is managed to take advantage of market volatility. Last quarter, we wrote about the elevated level of activity in the Portfolio as a result of the coronavirus-related panic. The free-fall in the markets provided unique opportunities, and the Portfolio was the most active it has been in over ten years.

This past quarter, we were much less active as markets rallied strongly through early June. Put simply, there were fewer opportunities this quarter, so we took less action.

Positioning

Sentiment in the capital markets feels like it is swinging from side-to-side on top of a knife's edge. We believe the "foreseeable future" for corporate America, and its shareholders such as ourselves and our clients, has never been shorter. We are fastidious practitioners of due diligence and conservative valuation appraisals, but even now the range of outcomes for most companies is wider than we can ever remember.

So much is uncertain at the moment. Will consumer behavior actually change after a second wave? Will the country go through another partial shutdown? We do not have a crystal ball. Even our magic 8-ball says to "Ask again later" when we shake it up and inquire what will happen next.

With that in mind, we believe the positioning that serves your best interest is to continue to focus on companies that have both the operating and financial capacity to endure through any economic environment.

There are other ways to potentially position the Portfolio in response to the uncertainty. We could take on little risk and hold an extreme level of cash, forfeiting potential upside should business and society adjust to the coronavirus impact better than expected. Or we could embrace elevated uncertainty and plunge into the most-impacted industries (hotels, restaurants, etc.) in hopes of favorable government intervention.

As we have written before, we will only invest your capital when we believe we are well compensated for the risk. The former stance strikes us as too conservative given the opportunities we see, while the latter seems imprudent for a small cap strategy that prides itself on prudence.

New Buys

As noted earlier, the Portfolio was relatively inactive during the quarter. Two notable stocks that the Portfolio purchased were Floor & Décor Holdings (FND) and Charles River Laboratories (CRL). Floor & Décor is a fast-growing retail concept that sells hardwood flooring and other related home décor items. Owing to its large store sizes, broad inventory of SKUs, and direct distribution model, we think the company has a significant advantage in this flooring niche. Because customers like to see and feel this type of product before purchase, we think the threat from online competition is relatively low and believe the company has a long runway to continue to open new stores at attractive rates of return.

Charles River is an outsourced clinical research (CRO) business. Pharmaceutical and biotech companies are increasingly turning to CRO businesses to handle their non-core functions during the development of a new drug. Charles River has a leading

position in the early stage, or preclinical phase of drug development. Notably, they are the leading provider of the rats and mice that are used in experimental trials of drug compounds before they are tested on humans. Like Floor & Décor, we think Charles River can continue to grow at an attractive rate for a long period of time.

Looking Forward

The Portfolio's philosophy has historically caused returns to be less volatile than its benchmark and the overall small cap market, leading to strong outperformance in bear markets. That is something we are proud and hopeful will continue.

But there will likely be times in the future, especially when sentiment is swinging wildly like this, in which we may need to accept higher volatility in the Portfolio in order to create the opportunity for higher returns in the future.

Said differently, we are proud of the Portfolio's less volatile past, and plan to manage it with the same philosophy that drove those results. But that philosophy requires us to take more risk and expose the Portfolio to more volatility when markets and sentiment are declining, such as late in calendar Q1. Should markets crash like that again, you should expect buying activity in the Portfolio to pick back up. This could result in higher volatility – a trade-off we will make for attractive prices on the high-quality small cap stocks we follow.

Finally, given how we are positioned, the Portfolio performed about as we expected in this past quarter. Should business conditions improve and small caps rise, we expect it to participate, although perhaps not to the degree as if we had bought highly leveraged or cyclical stocks which are numerous in the Portfolio's benchmark. And if markets roll over, we expect our positioning to protect our clients from the worst of the decline, while using the volatility to continue to add high quality small cap companies to the Portfolio's holdings at attractive prices. The Portfolio ended the quarter with a cash position of 20.0%, so we continue to retain ample flexibility to take advantage of any future volatility for your benefit. Thank you for your investment.

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

We said the first quarter of 2020 was one for the record books. While the second quarter did not have the same level of market price volatility, it was an unusual period in that the economic data was highly volatile, yet the market continued to rocket higher. The Federal Reserve's long list of unprecedented accommodations, which now includes corporate bond purchases, was undoubtedly the driver behind the move. The fastest bear market ever was followed by the largest rally in market history. However, the divergence between economic data and market performance is glaring.

The Federal Reserve has signaled that it may need to do *more*, and members of Congress have stated their intention to pass another round of stimulus. We believe the latter is probably more impactful to the average American, but the market feeds on both. The S&P 500 rallied almost 40% from its low in March over the next 50 days, handily beating the previous best from 1982 of 35.6%. Rallies of this magnitude have historically signaled a continuation of favorable returns. The prior seven largest rallies were followed by average returns of 10.2% and 17.3% in the ensuing 6-month and 12-month periods, respectively. In fact, returns for those periods were positive 100% of the time.[1] The adage "this time is different" is claimed by both bulls and bears, each of whom have compelling arguments. We are not taking a side. Trying to time the top or bottom of a market is a fool's errand. We are focused on populating the portfolio with what we believe are great businesses led by great management teams and think that over time this will lead to positive outcomes.

Domestic equity indices all returned in excess of 20% during the quarter. The Intrepid Disciplined Value Portfolio (the "Portfolio") returned 23.18%, net-of-fees, for the quarter compared to 21.74% for the S&P 400 Midcap Value Index. The S&P 500 returned 20.54% and the Russell 2000 returned 25.42%. We are pleased with how the portfolio performed, particularly given that cash averaged 10.6% during the quarter. Large-cap equity indices are at or near record levels, however, small and mid-cap indices are still materially below their highs.

1 Fox, Matthew. "Stocks just had their biggest 50-day rally ever – here's what they did next after similar gains (SPY)." *Markets.BusinessInsider.com*, 4 June 2020.

Our three largest contributors to performance in the quarter were ANGI Homeservices Inc (ticker: ANGI), IAC/Interactive Corp (ticker: IAC), and Etsy Inc (ticker: ETSY).

IAC/Interactive is a holding company that through its subsidiaries provides media and internet services. IAC owns ~85% of ANGI, so they are part of the same family. IAC through its billionaire chairman, Barry Diller, has a rich history of creating shareholder value having spun off many successful businesses including Expedia, Live Nation (Ticketmaster), Lendingtree, Tripadvisor, and at the end of the second quarter, Match Group (ticker: MTCH). We purchased IAC when its market value was at a $1B+ discount to the value of its stakes in ANGI Homeservices and Match Group, both of which are publicly traded. This implied a negative value for IAC's other businesses/brands including Care.com which it spent over $400 million acquiring early this year. Resilient results at both ANGI Homeservices and Match Group during the pandemic helped boost shares of IAC during the quarter. ANGI Homeservices' stock was one of the worst performers in the portfolio up until it was revealed that its business was actually thriving during the pandemic. Service providers turned to the HomeAdvisor platform to look for work and at the same time consumer demand for projects was strong. Data has indicated that this trend has continued through May and June which has helped both ANGI and IAC share prices. Performance for IAC during the quarter also likely benefited from the widely anticipated spin-off of Match Group which took place on June 30th. We have trimmed our ANGI position, but it is still a meaningful weight in the portfolio.

We wrote about adding Etsy to the portfolio in the fourth quarter of 2019—it has been a wild ride since! After initially coming under significant pressure during the market sell-off in March, Etsy emerged as a beneficiary of the environment. The site became the go-to source for face masks after the company encouraged sellers to consider making them. In April, over 12 million masks were sold on Etsy totaling about $133 million in sales. The masks attracted 6.5 million customers during the month (4 million new buyers and 2.5 million buyers who had not purchased on the site for a year or more). The 4 million new buyers were 2.5x the historical monthly rate. This helped buoy sales in more than just face masks. Sales on the site in other categories were up 79% in April compared to the prior year. The momentum has continued leading some investors to believe that there has been a structural shift in consumer behavior due to COVID-19, leaving Etsy as one of the primary beneficiaries. The shares reflect much of this optimism and we have used the strength as an opportunity to reduce the position size.

The largest detractor at only -49 basis points during the quarter was CTO Realty Growth (ticker: CTO). There were no other material detractors.

CTO Realty Growth has a portfolio of income producing properties and other assets such as a 22% interest in Alpine Income Property Trust (ticker: PINE). CTO and Alpine have high exposure to retail tenants and were therefore in the crosshairs of many investors. Shares of CTO remained under pressure after the company disclosed on April 29th that a third of its properties were closed during the shutdown as the tenants were not deemed essential businesses, a third were opened with modified hours/services, and a third were fully open. At that point, only 63% of its tenants had paid rent for the month. We suspect some tenants chose not to pay as they assessed their options related to the various government loan programs and perhaps used the opportunity to potentially negotiate more favorable terms. There are a few tenants that have questionable credit quality, but even if they defaulted CTO should be able to quickly fill the void because we would argue that its properties are high quality and located in attractive MSAs (Metropolitan Statistical Areas). Regardless, CTO's market value is materially less than its net asset value, even in a distressed scenario, in our opinion. We trimmed the weight of our equity holding due to the continued uncertainty, but we believe the 3.875% convertible bonds due 04/15/25 present a very attractive investment opportunity and, therefore, initiated a position during the quarter.

The Portfolio exited the quarter at the lowest cash level of the period. Cash has since increased, and we would anticipate it to continue to increase modestly as many stocks in the portfolio have hit or exceeded our estimate of fair value. Despite the run up in many stocks, we are still finding pockets of value in the market and continue to add new positions. There is a lot of uncertainty in our economy and in the markets right now. Uncertainty breeds opportunity. We look forward to taking advantage of these opportunities as they arise. Thank you for entrusting us with your capital.

INCOME PORTFOLIO – COMMENTARY BY HUNTER HAYES, CO-PORTFOLIO MANAGER AND MARK TRAVIS, PRESIDENT/CEO, CO-PORTFOLIO MANAGER

How many people does one meet[2] in a lifetime? Assuming an average life expectancy of eighty years and three hundred interactions with new people a year, our guess is twenty to thirty thousand. These interactions are unevenly distributed – one likely meets more people during school than in the crib, for instance, and the number will also vary wildly from person to person. A career salesperson could meet one hundred thousand people in a lifetime, but an arctic biologist who spends most of his life in the South Pole might only meet a few thousand (Atlantic Puffins do not count for this exercise).

There is also a distinction between the people we *meet* and the people we *know*. How many people do we really get to *know* during our lifetime? If we assume it takes several dozen hours of interaction to get to know someone, then it's probably only a few hundred. If you are American, that works out to .0001% of the United States' population – a tiny percentage!

Getting to know a company also takes lots of time and interaction. Beyond the perusal of financials, it takes conversations with management, channel checks, and a broad understanding of the competitive landscape. There are thousands of companies out there and we sift through a lot of them, the same way a person shakes a stranger's hands thousands of times over a lifetime. But we only get to *know* a sliver of the population, as this process can take months, if not years.

The same way a person builds close relationships over time, we work hard to discover companies worthy of lending money to. Would you blindly lend money to any of the thousands of people you have met over your lifetime? Of course not. You would probably only lend money to someone you know well and trust. And even then, you would want some protections.

We like to know the companies we lend to as well as someone knows a close friend or a spouse. And because we are generalists and do not have mandated sector exposures or arbitrary index alignments, we can be selective about which companies we get to know with this level of depth.

We usually start by screening out the undesirables. This is the equivalent of setting an Age Limit or a Smoking Preference on a dating app. If you know you would never date a smoker/septuagenarian, why not eliminate the possibility of connecting with one? Incidentally, we have lent to tobacco companies before and we have a thing for older companies, but to each their own.

Once we have whittled down our list of potential investments, we look for some common characteristics. We like:

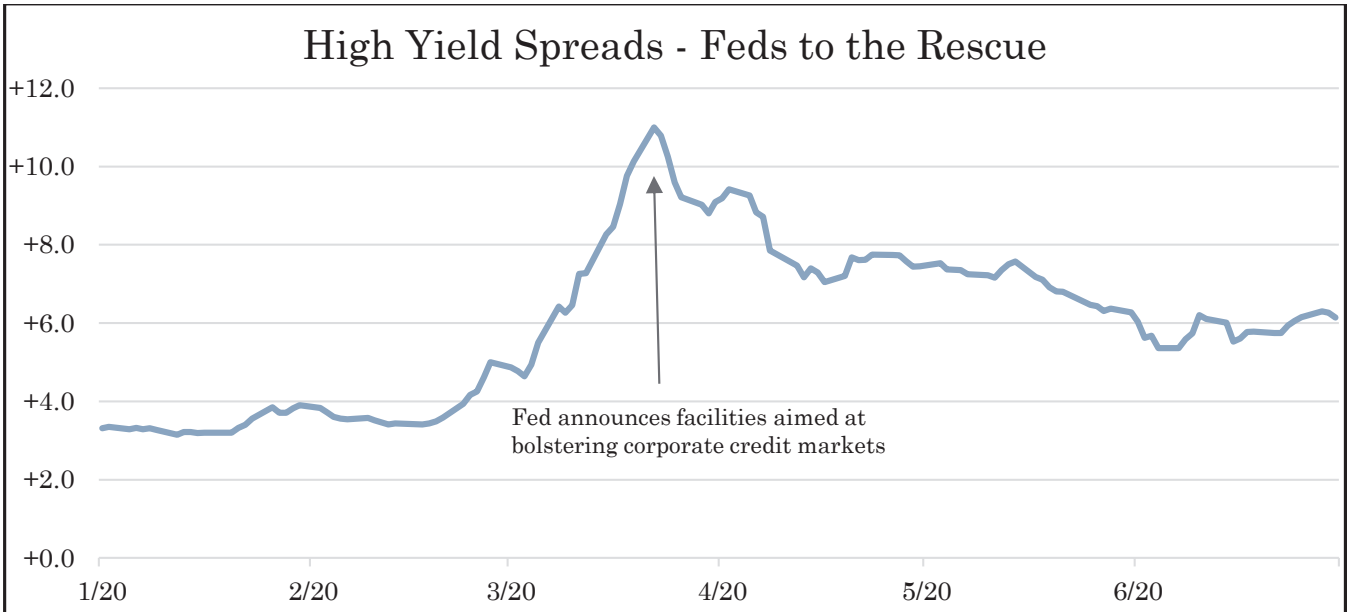
- Recession-resistant, flexible business models that have survived multiple cycles
- Balance sheets with low leverage and good asset coverage
- Reliable free cash flow generation or a highly probable path to free cash flow generation

Once we find a company we know and like, it comes down to terms. Going back to the dating analogy, sometimes a few nice dinner dates does not lead to a committed relationship. Likewise, just because a company is well-operated does not mean it is worth lending to. Often, we will revisit a once-spurned beau/investment at a future date when the terms are more amenable.

The past few months have given us a once-a-cycle opportunity to lend money to some of the companies we know and like at amenable terms. From a trading perspective, the second quarter was one of the busiest ever for the Intrepid Income Portfolio (the "Portfolio"). We are excited about the way we are currently positioned. At the end of the second quarter, the yield-to-worst on the portfolio was 8.47% and the effective duration was 1.96.

2 When we say "meet," we mean to have at least a brief interaction with or to come into the presence of.

Following the craziness of March, high yield bond spreads snapped back in the second quarter like nothing ever happened. This was after the Federal Reserve announced a stimulus package that included purchasing high yield bonds through corporate credit facilities. The ICE BofAML High Yield Index (the "HY Index") returned 9.61% in the quarter ended June 30, 2020. The shorter-duration Bloomberg Barclays US Govt/Credit 1-5 Year Total Return USD Index (the "1-5 Year TR Index") gained 1.77% over the same period.

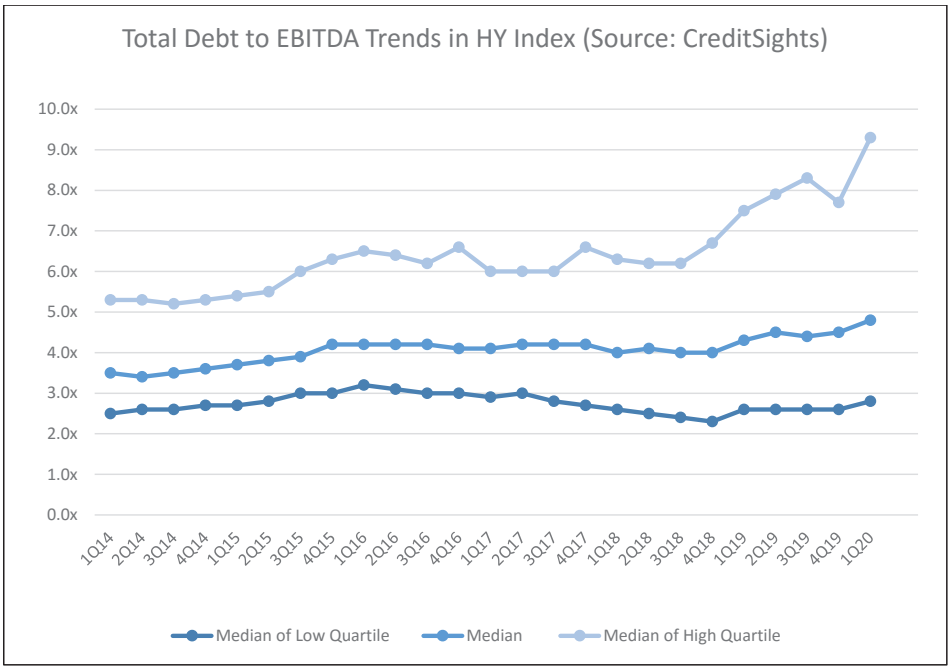


Shown: Option-Adjusted Spreads in % from Bloomberg Barclays US Corporate High Yield Index (LF98OAS Index)
Source: Bloomberg, Barclays

Longer-duration investment grade securities also joined the party following the Fed's announcement that they would backstop "creditworthy" securities. The Bloomberg Barclays US Aggregate Index (the "Barclays Aggregate Index") returned 2.90% for the quarter and the ICE BofAML US Corporate Index (the "Corporate Index") recorded 9.27% gain over the same period. The Intrepid Income Portfolio gained 5.33%, net-of-fees, in the quarter ended June 30, 2020.

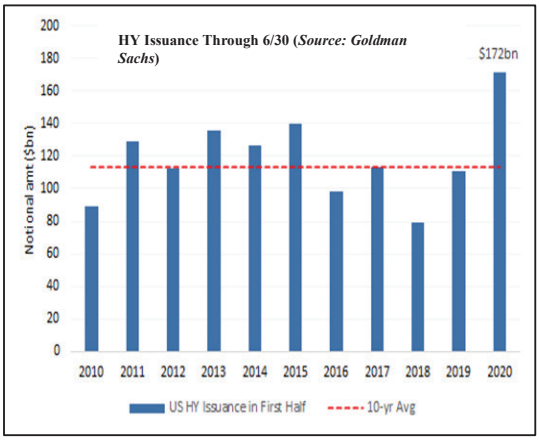
This is a treacherous investing environment fraught with uncertainty. There are many credits that carry more turns of leverage than points of yield. We believe the liquidity that flooded into credit markets following the Fed's announcement in late March could evaporate just as quickly. Many of the credits propped up by this liquidity are the large, indexed issues that benefitted mightily from the Fed's capital injection into junk bond ETFs. But no amount of liquidity can turn a bad credit into a good credit.

There exist lots of bad credits. As the chart below shows, the HY Index is heavily stratified. The highest leveraged quartile of issuers, which includes issues from beleaguered sectors like transportation, energy, and consumer discretionary, carried over nine turns of leverage at the end of 1Q20. Imagine what that will look like at the end of the second quarter once these companies report earnings! On the other end of the spectrum, the lowest leveraged quartile of issuers, which includes many BB credits and fallen angels that have received government support, carried under three turns of leverage at the end of the first quarter. If you think hiding out here is a good idea, however, think again. As of the writing of this letter, the average 2-year BB credit is yielding just 3.5% - hardly an adequate return for the risks an investor would incur lending to these companies!



Despite the craziness that exists in certain corners of the credit market, we are finding plenty of opportunities to deploy capital. We continue to seek all-weather businesses with strong balance sheets. We added several new positions to the portfolio during the quarter including Matador Resources.

Matador is an independent energy company in the Permian. We believe the company is one of the best operators in the country and has a strong enough balance sheet to weather one of the worst periods ever for oil and gas companies. The company has no maturities until 2023 and plenty of liquidity left on its credit facility. The 2026 notes we purchased are one of the longest-dated positions in the portfolio, but we believe this is actually an advantage for Matador as the company has the flexibility to wait out the turmoil in the energy market before becoming more aggressive. The company had over 100% of its 2Q20 oil production hedged which resulted in a cash gain of nearly $12/barrel. We believe Matador also has nearly 80% of its oil production hedged in the second half of the year and that it will generate free cash flow in the fourth quarter. The notes we purchased yield slightly over 10%.

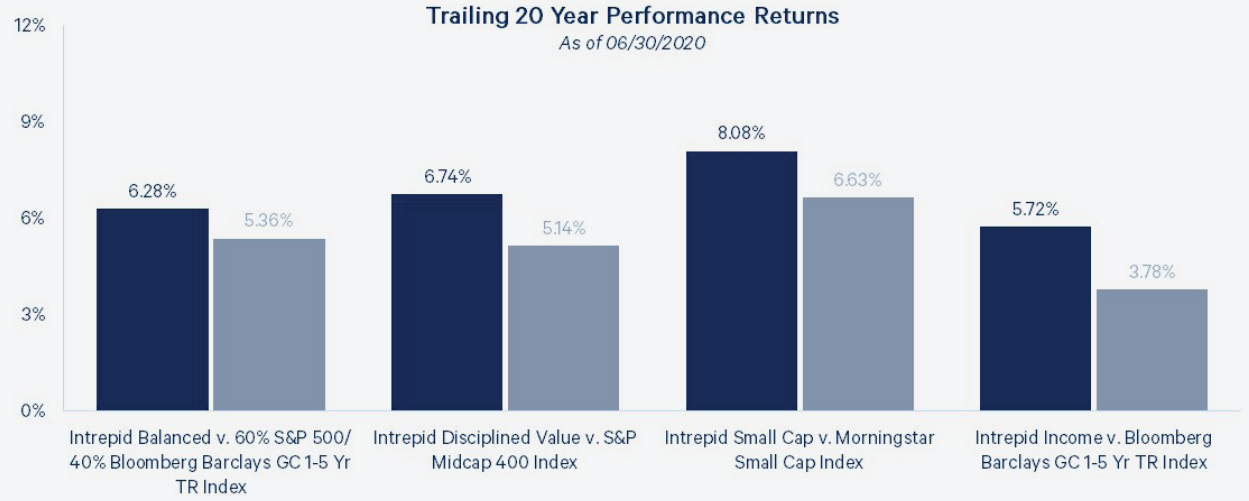


The Portfolio's top contributors for the three-month period ending June 30, 2020 were EZCorp Inc. 2.875% notes due 7/01/2024, Murphy Oil Corp. 6.875% notes due 08/15/2024, and QVC Inc. 5.125% notes due 7/02/2022. The Portfolio only had one material detractor for the quarter, Matador Resources Co. 5.875% notes due 9/15/2026. These notes moved slightly lower after our initial purchase during the quarter.

The Income Portfolio had over ten positions that were called or matured in the second quarter. We also rebalanced several positions. The proceeds from the bonds that matured or were called were redeployed into some of the new positions we listed above as well as existing securities.

We are pleased with the opportunities we have uncovered so far during this turbulent time, but we also continue to act cautiously, knowing that more volatility likely lies ahead. We will continue to lend prudently to companies we know and like. Thank you for your investment.

Annualized Performance



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 20-year period ending June 30, 2020. 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 January 1, 2019, the Intrepid Small Cap changed its benchmark from the Russell 2000 Index to the Morningstar Small Cap Index. As of January 1, 2019, the Intrepid Disciplined Value changed its benchmark from the S&P 500 Index to the S&P MidCap 400 Index. As of January 1, 2019, the Intrepid Balanced and Intrepid Income changed their fixed income benchmarks from the ICE BofAML US High Yield Index to the Bloomberg Barclays Gov/Credit 1-5 Year TR Index. The benchmarks for the Intrepid Small Cap and the Intrepid Disciplined Value have not been changed retroactively. The benchmarks for the Intrepid Balanced and the Intrepid Income have been changed retroactively.

INTREPID

Risk Adjusted Return

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