Index Returns	
9/30/2020 to 12/31/2020	
Dow Jones:	10.7%
S&P 500:	12.1%
NASDAQ:	15.7%
Russell 2000:	31.4%

QUARTERLY COMMENTARY

December 2020

"Every time we have an election we get in worse men, and the country keeps right on going. Times have proven only one thing and that is you can't ruin this country with politics."

— Will Rogers

Dear Friends and Clients,

Well, we made it! To a new year, that is! I know there were times, particularly last spring at the height of the stay-at-home lockdowns, where even optimists (like me!) had to wonder.

I received a recent email from a public company CEO titled "The Year from Hell, a Hell of a Year." I think that sums up 2020 from my perspective, although I am not trying to make light of the loss of human life along with the countless business failures that occurred as a result of the pandemic and subsequent lockdowns.

Now that I have cleared my conscience, I am pleased about how some of the slight changes to our investment process have generated measurable improvement in portfolio performance. Two issues I have discussed in past communications are at work here: letting our flowers bloom (a commitment to longer holding periods) coupled with the hallmark of our "intrepid" investing process – investing when fear is rampant and other buyers are hiding under the sheets with a flashlight on!

To highlight a few of our "flowers," each of these three companies is either close to or over a 100% return currently in the portfolio as of 12/31/20. They each were well positioned, for a variety of reasons, when the pandemic hit. And they are in the top 10 holdings of the portfolio today:

- **Interactive Corp (IAC).** This holding company spun out of Match.com in the summer of 2020 (who says people aren't looking for love in a pandemic!?) and also is the majority shareholder of Angi Homeservices (ANGI) which operates the HomeAdvisor website, which as you might guess proved popular with people looking to upgrade their residence while locked down.
- **TakeTwo Interactive (TTWO).** This video game maker has a couple of things we love, including a cash heavy balance sheet, a very scalable business, and high-quality franchises highlighted by "Grand Theft Auto."
- **Trulieve Cannabis (TRUL CN).** The explosion of medical and recreational (in states where it is legal) marijuana has been phenomenal. Trulieve is a vertically integrated retailer (they grow, distribute, and sell) primarily operating in Florida. The sales per square foot rival almost any business we have seen. We believe the shares are supported by a long runway for future growth, as well as a number of pending regulatory changes (e.g. access to US banking system, nationwide legalization, etc.). The potential for congressional action to allow cannabis companies to access the US banking system is creating support for the shares in our opinion.

Normally, I would highlight the five largest detractors in this part of a quarterly letter in order to be "fair and balanced," a list I term with the tongue-in-cheek "seemed like a good idea at the time." This quarter, with the large upward move in asset prices, there is really nothing to discuss. Stand by for next quarter!

The portfolio had the unusual distinction for a "balanced" portfolio of stocks, bonds, and cash to outrun the S&P 500 index in what was a very bullish final quarter of the year. The Portfolio was up +14.48% for the 4th quarter, ending the calendar year up +10.70% (after a rough start to the year).

I want to thank you for staying invested with us at Intrepid Capital, during a year like no other in my 36-year career in investment management.

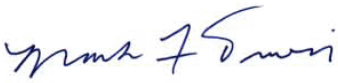
It is nice to look back at my parting commentary near the depths of the drawdown in equity prices (April 1, 2020). I see it largely came true!

To Wit:
"I know this has been scary for many of you, and as your Portfolio Manager I am entirely and completely empathetic to where we find ourselves today. I won't dredge up the charts suggesting you stay invested (they are too numerous to include here), but I will leave you with this parting thought: there is opportunity in chaos and frankly we are now focused on the abundant opportunities that we haven't seen since the failure of Lehman Brothers in the fall of 2008, which ignited the Great Financial Crisis. We came through that period in fine form and expect no different this time. As your 'Captain' I will say 'Passengers, please return to your seats and buckle your seat belts; we are experiencing some turbulence'."

It is nice to feel prophetic!

Thank you for your continued investment with us. If there is anything we can do to serve you better, please don't hesitate to call.

Best regards,



Mark F. Travis
President/CEO

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

Wow, what a wild quarter and year. For the quarter, small cap stocks went on an absolute tear, with the Russell 2000 index returning 31.4%. Optimism about a strong economic recovery in 2021, expectations of further economic stimulus, and the release of very positive vaccine news drove small caps to a historically strong quarter.

For the full calendar year, small cap stocks returned a very attractive 19.9% as measured by the Russell 2000. But as hinted above, it was quite a path to get there. We won't re-hash the twists and turns, as we are sure all reading this remember the tremendous market swings throughout the year quite well.

We believe there were countless investing takeaways from the volatility this year, but none larger than confirming that making economic or market predictions about the future is not a useful exercise. Anyone who says they predicted and positioned their portfolio accordingly for what happened this year is probably lying to you.

Relatedly, we spent our time in 2020 1) taking advantage of buying opportunities during the panic early in the year and 2) finding new, high-quality small cap companies to add to our possible buy list. Our belief is that there is no better use of our time in any market environment, but that that focus paid off especially well in calendar 2020.

Specifically, despite underperforming our benchmark (the Morningstar Small Cap Index) in calendar Q4, the Portfolio outperformed it handsomely for the full calendar year.

In Q4, the Portfolio returned 21.1% versus the benchmark's 29.3%. The largest contributors were Trulieve Cannabis (TRUL CN), Take-Two Interactive (TTWO) and SP Plus (SP). The only material detractor was LGI Homes (LGIH). Trulieve and Take-two both benefitted from strong quarterly results. SP Plus stock was a strong beneficiary of the vaccine news, as its business is exposed to travel and other sectors of the economy that were impacted by shutdowns and the work from home trend. LGIH stock declined slightly during the quarter, most likely due to a slight increase in interest rates, but there was not any deterioration in its business fundamentals, in our opinion.

For the full calendar year, the Portfolio's return was 22.5% vs. the benchmark's 16.4%. The largest contributors were Take-Two Interactive, Trulieve Cannabis and Burlington Stores (BURL). The largest detractors were SP Plus, Hanesbrands (HBI) and Garrett Motion (GTX). The Portfolio no longer owns Hanesbrands and Garrett Motion, and we believe SP's business will gradually recover as the virus fades away and there is a broader reopening of the economy.

We attribute both the quarterly underperformance and the full year outperformance to the same drivers. We maintained our focus this year on companies that could "endure" most conceivable economic environments. This drove the overall outperformance during the coronavirus panic early in the year, as we tended to be under-exposed to companies that were highly leveraged or that had weaker business models. However, when optimism about a strong economic recovery, stimulus, and a covid-19 vaccine emerged, it was many of these same stocks that became "recovery plays" (stocks which were most at risk of prolonged economic downturn from the virus) and ended up driving the incredible performance of small cap stocks late in the year. By comparison, the higher quality and more stable businesses that we prefer to own tended to underperform small cap indices in Q4.

So how to position the portfolio looking forward?

We believe the underlying concept that your capital should be invested in companies with the capacity to "endure" is crucially important. It is not a strategy we adopted in response to the emergence of the coronavirus. It is a North Star philosophy that we believe helps create value by reinforcing to you that the Portfolio is invested in companies that can preserve and grow your capital over time with a high degree of confidence. It also helps us, as Portfolio Managers, to act with confidence when uncertainty is high and opportunities arise (such as in much of 2020) since our familiarity is mostly concentrated on businesses whose fundamentals can withstand nearly any operating environment.

This has important implications for how the Portfolio is positioned going forward. To start, we must avoid companies and industries within the small cap universe that are structurally challenged and are unlikely to grow intrinsic value much over time. Two industries that come to mind are small cap energy and financials. While certain macro conditions can emerge that are very favorable for these sectors, we know that the small cap energy production industry has never made a collective profit since the shale revolution began. Similarly, we believe that small banks are competitively disadvantaged due to lack of scale, high regulatory costs, and growing fintech competition. So while we may find an occasional exception, the Portfolio will almost always be structurally underweight in these industries.

In addition, our focus on companies that can endure guides us to favor companies with competitive advantages, are market leaders within their niche industries and are creating value for both their customers and shareholders. Not surprisingly, these companies tend to be less economically sensitive and often have little to no debt or financial risk. They usually have very strong, proven, incentivized, and accomplished management teams. And they often have modest growth tailwinds to their business. We view our job as finding companies with these qualities and buying them for the Portfolio when they are priced at a value that implies attractive future returns.

This has led to two important and related changes. The Portfolio's positions have now skewed to higher quality companies on average versus the type of companies it owned several years ago. And because of our higher confidence in these companies and their future value creation, the Portfolio will maintain a much smaller cash position than the extreme levels it has had in the past. We believe the Portfolio's new positions in this most recent quarter exemplify well the type of companies it will hold going forward.

New Purchases

- **InterActive Corp (IAC)** – IAC is a holding company with an exceptional capital allocation record that has been a highly successful value compounder for its owners. It has a niche focus on digital network and marketplace businesses, and the majority of its value today rests in its stakes in Angi HomeServices (described below), global video platform Vimeo, gaming company MGM, and a substantial net cash balance sheet position. We believe the stock trades at a discount to a conservative estimate of the sum of its parts. Given the company's historical capital allocation success and willingness to divest assets once the appropriate value can be realized, we think this discount is unjustified.
- **Angi Homeservices (ANGI)** – This business is majority owned by IAC, but we took a separate position in its stock in order to gain pure-play exposure to its business. Angi operates a platform which connects a network of service professionals with homeowners looking for a contractor. The company has generally underwhelmed expectations over the past several years as contractors have had plenty of steady demand and have not needed to source leads through the Angi platform. However, we believe this will change as the platform matures. Like so many other services that have removed friction through digitizing a cumbersome transaction (e.g., Uber for hailing transportation, Booking.com for reserving travel, etc.), we think the Angi platform will ultimately be a better way to schedule home services. We think this will become especially apparent as the company rolls out a fixed price offering and as more younger consumers purchase homes. We expect this demand-side platform growth to force growth in the contractors on the platform (i.e., supply-side), thus creating a lot of value for the Angi platform. While the stock does not appear cheap on historical financials, we believe it is quite attractive relative to cash flows that we think it can generate prospectively.
- **CBOE Global Markets (CBOE)** – A financial markets exchange business, the company has a dominant position in the trading of options, futures and other derivatives. The economics for exchange businesses like CBOE are highly attractive (returns on invested capital are enormous), and we believe the scale and complexity of the established competitors leads to a defensible earnings stream for CBOE. We purchased CBOE at a mid-teens earnings multiple, which we believe undervalues its business in a normalized environment. Furthermore, we think there is a reasonable chance that the current regime of ultra-low rates and central bank support may lead to structural growth in certain derivative trading strategies that will benefit CBOE's exchanges. We think of this possibility as an upside optionality that is not priced into the stock.
- **Dropbox Inc (DBX)** is an enterprise software company that focuses on workflow productivity for small enterprises. We believe Dropbox has fallen through the cracks – it is growing but too slow for growth investors. And the technology focus and mid-teens free cash flow multiple are not attractive to deep value investors. We are attracted to DBX's current valuation (15x free cash flow) and its growth (low double digits). However, we are especially excited about the catalyst of its new organizational plan to reduce expenses, expand margins, and return its rapidly growing free cash flow generation back to shareholders. The management team is also highly incentivized through share award targets to increase the stock price after being designated a "broken IPO" from 2018.

The Portfolio ended calendar 2020 with a cash level of approximately 8%. While this will fluctuate somewhat from here depending on our opportunity set, we believe a cash balance in this range maintains our ability to be aggressive when opportunities arise. In addition, retaining the ability to hold some cash reduces our risk of over-paying for our high-quality opportunity set. We believe investing in enduring companies is important, but we do you no favors by overpaying for them.

We believe the philosophy outlined above is an attractive way to protect and grow your capital. It runs the risk of underperformance during periods in which trends or industries the Portfolio is under-exposed to (such as "recovery plays," small cap energy, and financials) are in vogue, but we believe focusing on companies that can endure is a much more prudent long-term strategy than trying to time whatever economic or market trends we think might prevail in the short-term. Remembering how 2020 played out compared to everyone's expectations only reinforces that belief for us. We prefer to position the Portfolio in a way that gives us the most confidence in its long-term success.

So long story short, the Portfolio has less cash and is more invested than at any time in the last 12 years. But that investment is in great companies and at attractive prices that over time should protect and grow your capital. For that reason, we will keep some level of opportunistic positioning going forward, but we will manage the Portfolio with much less cash than it has had historically.

We hope you had a safe 2020 and an enjoyable holiday season.

Thank you for your investment.

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

"Three things ruin people: drugs, liquor, and leverage"

— Charlie Munger

Taking on debt is like gaining weight – easy to put on but hard to take off. The past year has been an all-you-can-eat buffet for corporate debt issuers, happily catered by grinning investment bankers. All in all, high yield borrowers issued $436.5 billion of new debt in 2020, 61% more than in 2019 and over 100% more than in 2018, according to RBC Capital Markets.

Meanwhile, profitability for those issuers has cratered. On an adjusted basis, the median leverage multiple for a high yield issuer after 3Q20 earnings stood at 4.8x, according to CreditSights. Bear in mind that adjusting profitability is like buying pants that are a couple waist sizes too small. Pro forma for that diet, maybe they will fit… but you should probably not depend on it.

At year end, the ICE BAML US High Yield Index (the "High Yield Index") had a yield-to-worst of just 4.24%. We lamented a year ago about how little yield existed to pay investors for myriad risks. **Now there is less yield and even more risks, in our opinion.**

While we are reminiscing, this time last year we wrote that "we cannot predict when or how this market bonanza fueled by cheap debt and monetary stimulus will end." Indeed, a global pandemic was not what we were expecting to throw capital markets into momentary chaos. But then again, it almost never is what one expects.

Once again, we have no idea what will shake things loose in the high yield market now that spreads are back at all-time lows and leverage is higher than ever. The stumbling block could be inflation, vaccine distribution issues, or even civil unrest.

However, we do believe that the Intrepid Income Portfolio has a leg up in this picked-over market because of our bias towards smaller debt issues, willingness to lend to capital constrained industries, and limited duration skew.

The Portfolio is comprised of mainly smaller, sometimes unrated debt securities. We believe these securities are often overlooked by larger fixed income investors, resulting in meaningful spread pickup. We have even found situations where two nearly identical bonds from the same issuer have significantly different yield profiles, with the smaller bond yielding significantly more. We have also found attractive opportunities in the busted convertible bond market. To source these credits, we have developed deep relationships with several broker-dealers that specialize in smaller-issue debt.

We also look for creditworthy companies in industries that are capital constrained, as we believe this can give us the ability to demand higher interest and/or attractive terms. In some cases, we are instrumental in constructing the credit documents. We usually look for situations where these companies have a meaningful path to a lower cost of capital.

A great example of a capital constrained industry with a path to a lower cost of capital is cannabis. Over a year ago, we lent money to the largest cannabis company in the United States by market capitalization, Curaleaf Holdings. The loan paid a 13% coupon, which we believed more than compensated us for the risks. Over the past year, the company has exceeded expectations and now carries only two turns of net leverage.

That loan, which was issued at 97 cents on the dollar, now trades hands at 109 cents on the dollar, and we have enjoyed a year's worth of 13% interest on our initial capital. What is more, Curaleaf just raised additional capital at a 10.25% interest rate, significantly lowering their cost of debt. We believe the original loan will be refinanced next year at the first call date as more investors flock to the sector.

Opportunities like Curaleaf require a prodigious amount of work. We spent hundreds of hours learning about the cannabis industry, met with the management team several times, flew to Massachusetts to tour one of the company's many cultivation facilities, and spoke to countless industry experts. However, once we were comfortable, we were able to take a significant weight in the loan which helped bolster the Portfolio's performance. We believe the ability to do this type of specialized work in underfollowed or out-of-favor industries is a huge differentiator for our Portfolio and makes us unique.

In addition to cannabis, we continue to find additional opportunities in sectors like energy, specialized financing, and gaming. In our view, these situations can offer a much better risk-adjusted return than the vanilla high yield market, which is yielding significantly less on average.

We like to lend money for short amounts of time, as we believe our ability to forecast greatly diminishes beyond 2-3 years into the future. Limiting duration is also a way of hedging for potentially rising rates and/or inflation. The lower the duration, the quicker we get our cash back and the sooner we can redeploy it. Furthermore, our lower duration allows us to be nimble when there is a dislocation in the market, like last spring when we redeployed nearly a third of the entire Portfolio into better market opportunities. The Portfolio's effective duration at the end of the fourth quarter was 1.79 years compared to 3.67 years for the High Yield Index.

By cautiously deploying capital where others will not, and by limiting the amount of time our capital is lent, we believe we have built a robust portfolio that is well positioned regardless of whether we have more market complacency or volatility.

We are pleased with our recent performance. The Portfolio returned 7.11% in the fourth quarter, one of its best quarters ever. The High Yield Index increased 6.48% over the same period. The Bloomberg Barclays U.S. Gov/Credit 1-5Y TR Index returned 0.33% and the Bloomberg Barclays US Aggregate Bond Index returned 0.67% during the quarter.

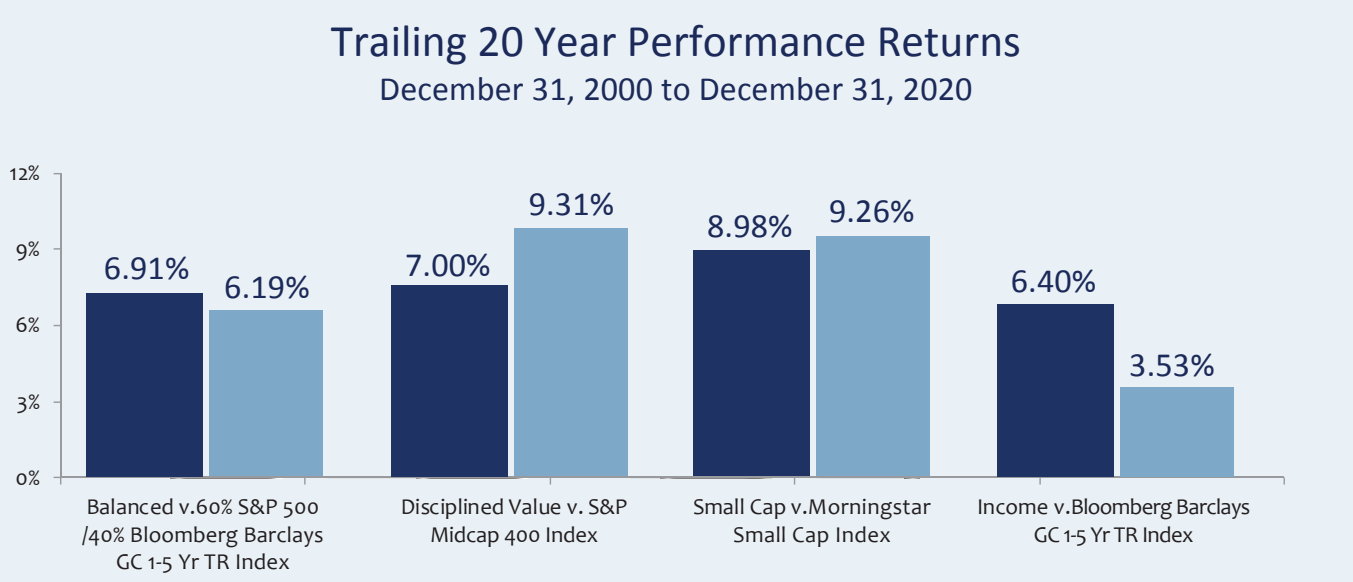
The Portfolio's top contributors for the quarter were Turning Point Brands 2.5% due 7/15/2024, WisdomTree Investments, Inc. 4.25% due 6/15/2023, and Meredith Corporation 6.875% due 2/01/2026. The Portfolio had no material detractors in the quarter.

We had five bonds that were either called or matured during the quarter. Most of our purchases and sales were limited to positions we already owned.

Despite the risks that lie ahead for our country and the world, we remain optimistic that driven people will continue to find creative solutions to difficult problems. We will try our best to do the same while protecting your hard-earned capital.

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 December 31 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 Returns

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 December 31 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