AEGIS Value Fund

Portfolio Manager's Letter
Quarter Ended June 30, 2017

July 19, 2017

Table 1: Performance of the Aegis Value Fund as of June 30, 2017

			Annualized					
	Three Month	Year-to-Date	One Year	Three Year	Five Year	Ten Year	Since I Share Inception*	Since A Share Inception*
Aegis Value Fund Cl. I	-3.34%	-3.34%	12.87%	-3.32%	7.77%	4.01%	9.50%	NA
Aegis Value Fund Cl. A at NAV	-3.42%	-3.42%	12.68%	-3.52%	NA	NA	NA	-2.38%
Aegis Value Fund Cl. A-W/Load	-7.04%	-7.04%	8.49%	-4.74%	NA	NA	NA	-3.49%
Russell 2000 Value Index	0.67%	0.54%	24.86%	7.02%	13.39%	5.92%	8.23%	7.66%

** **Aegis Value Fund Class I** (AVALX) and A (AVFAX) Inception were 5/15/98 and 2/26/14, respectively.*

Performance data quoted represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data quoted. The investment return and principal value will fluctuate so that upon redemption, an investor's shares may be worth more or less than their original cost. For performance data current to the most recent month end, please call us at 800-528-3780 or visit our website at www.aegisfunds.com. Performance data for the Class A shares with load reflects the maximum sales charge of 3.75%. Additionally, performance for the Class A Shares without load is shown at NAV, and does not reflect the maximum sales charge. If reflected, total return would be reduced. The Fund's Class I (AVALX) and Class A (AVFAX) shares have an annualized gross expense ratios of 1.50% and 1.76%, respectively. The Fund's Class I and Class A net annualized expense ratio, after fee waiver, is 1.50%, and 1.75%, respectively. Under the waiver, the Advisor has contractually agreed to limit certain fees and/or reimburse certain of the Fund's expenses through 4/30/2018.

The Aegis Value Fund declined 3.34 percent in the second quarter, underperforming the positive 0.67 percent return of the Russell 2000 Value Index, the Fund's primary benchmark.

Large-cap stocks were this quarter's stand-out performers, with the S&P 500 Index climbing 3.09 percent as investors continued to move assets into passive indexing strategies at a record rate. Investors showed particularly strong excitement towards the large capitalization technology stocks which have soared in recent months, driving a substantial portion of the S&P 500's returns. Within the S&P 500, the healthcare sector rallied, increasing by approximately seven percent. Gains in healthcare were responsible for about a third of the S&P 500's aggregate quarterly gains.

Central banks worldwide continued to print money at a record pace, purchasing approximately $1.5 trillion in assets worldwide in the first five months of 2017 alone. Combining these purchases with asset purchases driven by the nearly $338 billion of passive index inflow over this period, the current total level of valuation-insensitive assets in central banks, exchange traded funds (ETFs) and other indexed mutual funds was pushed past a massive $21 trillion, according to Jim Grant, founder of Grant's Interest Rate Observer. In an echo of the late-90s, asset purchases by this group of actors looks to have reignited an investor obsession with high-flying tech stocks. In the second quarter large tech stocks drove S&P 500 returns, with nearly 21 percent of the S&P 500's aggregate returns driven by Facebook (FB), Apple (AAPL), Microsoft (MSFT), Amazon (Amazon) and Alphabet/Google (GOOG). With little apparent regard for valuation, investors sent shares of Facebook ($450 billion market cap/trailing P/E of 39 times) 6.3 percent higher, while Amazon ($475 billion market cap/trailing P/E of 187 times) spiked another 9.2 percent and Alphabet/Google ($650 billion market cap/trailing P/E of 31 times) ascended 9.7 percent. Tesla ($50 billion market cap & negative earnings), who's CEO Elon Musk last September captured the imagination of investors and reporters alike with exhilarating future plans to colonize Mars, soared a massive 29.9 percent during the quarter. As technology valuations soared to ever loftier heights, central bank monetary pressures also sent capital flooding into other even more speculative venues, with the aggregate value of the global cryptocurrency markets hitting $100 billion in the quarter as bitcoin values jumped 133 percent. Because few cryptocurrencies are in-fact backed by assets of any kind, the skyrocketing valuations appear to be strong evidence of excessive risk taking in the markets today.

Within the Fund, price declines in the energy and materials positions were primarily responsible for the Fund's performance shortfall relative to the benchmark in the quarter. Energy investor sentiment soured as hopes for further OPEC production cuts were dashed and crude output from Libya and Nigeria churned higher amid a robust recovery in U.S. shale oil production. Brent Crude prices dropped 9.0 percent over the quarter while Natural Gas declined 4.9 percent,

sending energy-related equities lower. In particular, declines in the prices of WPX Energy (WPX), Mitcham Industries (MIND), Select Sands (SNS.TO), and Parker Drilling (PKD) together negatively impacted Fund performance by 3.37 percentage points in the quarter.

While energy has been a frustrating area of investment in recent months, we intend to retain our energy holdings as we believe they offer compelling opportunities to produce strong shareholder returns over the longer-term, based primarily on company-specific fundamentals. However, we are also constructive towards a recovery in crude prices over time as the world continues to work through the crude oversupply that developed in late 2014 when Iran returned to the export market and as global markets begin to more acutely feel the impact of underinvestment in long-lead crude projects. If we are correct in our view, energy stocks should perform exceptionally well. Altogether, the Fund's energy-related holdings comprised approximately nine percent of Fund assets at quarter-end.

The Fund's holdings of precious metals mining companies experienced unusual levels of volatility and pricing pressure in the second quarter, depressing returns by 1.2 percentage points as the MVIS Global Junior Gold Miners Index plunged 8.4 percent, a disproportionate move given the relatively mild gold price decline of just 0.6 percent. During the quarter, the entire precious metals mining sector was heavily impacted by the reconstitution of VanEck's GDXJ exchange traded fund, which aims to passively track the VanEck-owned MVIS Global Junior Miners Index. The ETF, which peaked at $5.4 billion in assets, had apparently become too large to effectively passively invest in junior miners, and had acquired overwhelming stakes of up to 20 percent of the outstanding shares of several smaller producers. We understand that rather than close the product, which was experiencing exceptionally strong junior mining-related investment demand, VanEck chose instead to reconstitute the Index, modifying its definition of "junior miner" to include much larger mining concerns, presumably in order to accommodate higher levels of assets. As a result of this reconstitution, a significant portion of the many smaller mining concerns held by the GDXJ ETF were purged over the course of six to eight weeks, resulting in pricing pressure on many mining equities. The sell-off in mining equities impacted the overall ETF price as well, which compounded the situation as investors, concerned about price declines, began to withdraw assets from the ETF. Incredibly, from March 22nd, when the number of GDXJ shares outstanding peaked, to June 16th, when the rebalancing was completed, nearly a third of GDXJ shares were redeemed by investors.

Several Fund positions in junior miners came under pressure driven by the GDXJ ETF selling, including Endeavour Mining (EDV.TO – down 10.92 percent), Dundee Precious Metals (DPM.TO – down 11.87 percent) and Alacer Gold (ASR.TO – down 20.60 percent). In each of these cases, the stock drops occurred despite low valuations, stable gold prices and strengthening company fundamentals. Overall, the technical purge created strong buying opportunities for investors focused on fundamentals. In the case of Dundee, the company announced an 8.9 million share stock repurchase program, presumably in an effort to take advantage of the price-insensitive selling to buy in cheap shares. In the case of Endeavour Mining, the company's largest investor, the Sawaris family, which already held a 30 percent stake, obtained company approval to increase its ownership stake by an additional three percent through open market equity purchases.

The Aegis Value Fund took advantage of the technical selling pressure in the gold space to make additional opportunistic purchases. The fund's largest purchase overall during the quarter was Brio Mining (BRIO.TO), a $210 million market-cap, Toronto-based gold mining company with four mines in Brazil. Brio was recently spun out from Yamana, a large-cap, highly levered mining company that had rapidly expanded in the last gold bull market and had unfortunately taken its eye off the ball operationally in Brazil. In particular, Yamana invested approximately $400 million to develop the Santa Luz mine, installing mill processing infrastructure without properly understanding the ore metallurgy. As a result, upon start-up, the mill process failed to deliver adequate recoveries, forcing Yamana to shut the mine down and book a $334 million write-off. In another case, Yamana took a $164 million write-down at its Pilar mine after misestimating its resources. Yamana responded by declaring several of these Brazilian assets to be non-core, bringing in new management, and attempting to sell Brio shares in a rights offering spin-out, which was not particularly well received by its investors.

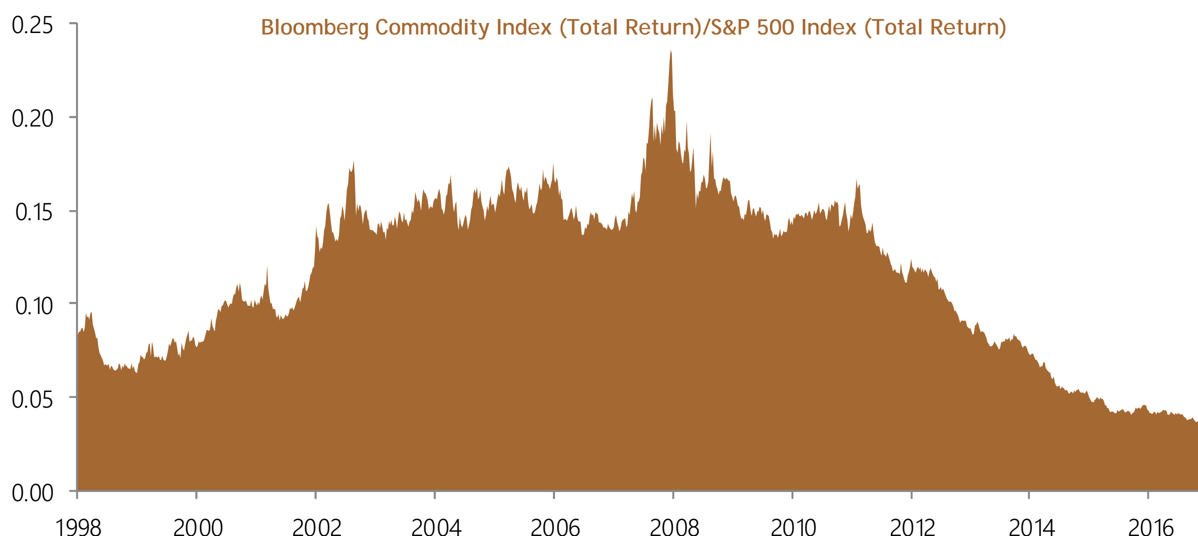
The Fund purchased its stake as Brio shares came under additional selling pressure post spin-out as Yamana struggled to sell down its remaining stake during a period of low investor mining interest. Our research suggested that new management is making significant operating improvements at the mines and would be able to correct a number of operating issues overlooked by Yamana's previous management team, the largest of which is the potential ability to bring the Santa Luz mine back into production. According to management, Santa Luz can be restarted with much higher recoveries provided an additional $85 million is spent on new mill equipment that more effectively processes the ore metallurgy. Management intends to significantly improve operations at another of its mines, RDM, with the addition of $40 million of new excavation equipment. As the company was spun out with less than $20 million of net debt on its balance sheet, Brio should be able to fund these capex needs primarily out of operating cash flow without the need to tap the capital markets for additional equity. Following these improvements, we believe the company should be able to produce as much as 400,000 ounces of gold annually at a cash cost of $730 an ounce by 2019, leading to more than $100 million of annual pre-tax cash flow after deducting sustaining capital expenses. As of July 19th, shares of Brio comprise approximately 2.5 percent of Fund assets.

Overall, including Brio Gold, the Fund held a total of 16 precious metals mining companies aggregating to 22.9 percent of Fund assets at the end of the quarter. In each case, our analysis suggests that these mining investments provide the potential to deliver outsized equity returns even in scenarios where future gold prices that are flat to sluggish. A good case in point is Brio's prospects to generate annual pre-tax cash flow in excess of $100 million at today's gold prices, given its fairly modest $210 million market cap.

Furthermore, we believe these precious metals mining investments also offer the prospect for very strong returns should we see the materialization of certain inflationary macro scenarios currently judged by the markets to be of low probability. We know that financial system leverage has continued to soar higher in recent years, with the Institute of International Finance suggesting global debt has surged to a record $217 trillion in early 2017, now comprising over 327 percent of global GDP. Global leverage has now climbed 46 percent from $149 trillion ten years ago just prior to the onset of the last financial crisis. History has shown that with higher debt levels, the prospect of eventual monetization through inflation and currency debasement becomes significantly more likely. Today, central bankers worldwide are already purchasing assets with printed money, monetizing debt at a pace never before seen in history. As a result, asset valuations appear to be ballooning higher as central bank liquidity injections continue to push interest rates lower, with interest rates on many Eurozone and Japanese sovereign bonds even being suppressed to negative levels. While the interest rate-driven asset price inflation has not yet fully spilled over into consumer prices, we suspect that central bank efforts to "reflate" the economy will sooner or later take hold. And when this occurs, we suspect rising consumer price levels might prove very difficult for central banks to fine-tune or reign-in. Under such scenarios, we believe gold mining equities could perform extremely well as gold prices climb.

Also dragging on Fund performance during the quarter were declines in two paper and forest product holdings: Resolute Forest Products (RFP) and Verso (VRS). Resolute most negatively impacted Fund performance in the quarter, costing the Fund 1.37 percent, and both positions together negatively impacted the Fund by just under two percent. Resolute stock dropped 19.3 percent in the quarter after investor expectations of better financial results following a recent sharp upswing in both lumber and pulp prices were dashed as better margins failed to materialize. Instead, margins remained anemic and Resolute's new Calhoun tissue project ran slightly over budget. Despite the difficulties, we continue to like the $400 million market cap paper and lumber producer. Our research indicates that Resolute's margin disappointment was likely simply due to contractual lags in realizing pulp and lumber price increases. While the market frets about the recent lack of cash flow, increasing debt load (net debt has grown to about $800 million) and secular declines in the company's newsprint and mechanical papers business, we see a lagged cash-flow growth opportunity that should begin to play out over the next several quarters as improved realized prices on pulp and lumber increase margins. Furthermore, capital expenditures should drop off markedly following the completion of the company's Calhoun tissue plant, which should increasingly add to cash flows as commercial contracts are secured. Overall, we think the company, with about $1.2 billion in enterprise value, has the potential to generate approximately $100 million in EBITDA per quarter and free cash flow of $90 million in the second half of the year alone. While both Resolute and Verso are exposed to significant secular decline concerns with respect to certain paper products, we believe both companies trade at valuations that already presume significant additional demand destruction. Furthermore, both enjoy a strong cost position that we believe make them likely survivors as supply is rationalized and the historic demand declines eventually moderate.

Figure 1: Commodities may be hitting a cyclical low relative to the S&P 500



Source: Bloomberg (Data from 7/17/1998 to 6/30/2017)

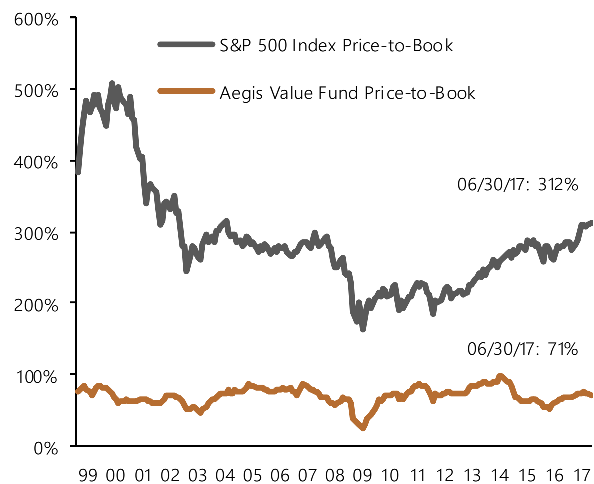
Past performance does not guarantee future results

Figure 2: S&P 500 Valuation Summary (as of June 30, 2017)

S&P 500 valuation summary				
Valuation Metrics	Aggregate index		Median stock	
	Current	Historical Percentile	Current	Historical Percentile
P/E to growth (PEG)	1.4	87%	1.9	100%
EV/Sales	2.2	95%	2.8	99%
EV/EBITDA	11.5	88%	12.0	99%
Price/Book	3.1	84%	3.3	98%
Forward P/E	18.0	89%	18.3	97%
Free cash flow yield	4.3	49%	4.3	50%
Cyclically adjusted P/E	25.5	87%	NA	NA
Median		87%		98%

Source: FactSet, IBES, Datastream, Goldman Sachs Investment Research. Data since 1976 for all metrics other than PEG (1982) and free cash flow yield (1990)

Figure 3: Aegis Value Fund and S&P 500 Index Historical Price-to-Book Ratio



Source: Aegis Financial Corp. and Bloomberg

The Fund did experience a recovery in a couple names that had been pressuring Fund performance in the first quarter. Delta Apparel (DLA) rebounded nicely, up 25.8 percent in the second quarter following the sale of its marginally profitable Junkfood business for an attractive price of $28 million, meaningfully reducing debt and adding nearly $3 per share to tangible book value. Alliance One International (AOI) was also a strong performer, with shares rebounding 12.06 percent as the selling pressure arising from the company's ejection from the Russell 2000 Index abated and the market began to focus on the company's prospects for strengthening cash flows in the coming year as its Brazilian operations recover from last year's difficult crop season. The recovery in prices in these two positions added approximately 2.35 percentage points to Fund returns in the second quarter.

With the strong run-up in large-cap stocks over the last several quarters, valuation multiples have reached levels that are quite elevated relative to history. As can be seen in Figure 2, according to data compiled by Goldman Sachs, the median stock in the S&P 500 is now valued in the 98th highest percentile relative to the last 40 years. Despite what appears to be solid levels of S&P 500 earnings growth in 2017, today profit margins within the broad equity markets remain unusually high, with S&P 500 margins reportedly at all-time highs when energy stocks are excluded. When considering the near record length of the current U.S. economic expansion, the broad equity markets today don't appear to offer a particularly compelling investment proposition.

Despite the high valuations, we have worked diligently to assemble a collection of investments within the Fund that we believe offers investors a significantly improved risk/reward ratio when compared to the S&P 500. Evidence of our approach can be seen in Figure 3, wherein stocks in the Fund trade at a weighted average price of just 71 percent of book value, less than a quarter of the valuation of the S&P 500. We continue to be heavily weighted in materials and energy stocks, which together comprise approximately 56 percent of Fund assets. As can be seen in Figure 1 on the previous page, the Bloomberg Commodity Total Return Index trades at a 20-year low against the S&P 500, having significantly underperformed the S&P 500 Total Return Index since 2007. As a result many material-related stocks also trade today at unusually low valuations compared to the broad equity markets. We believe the Fund's materials investments are particularly well positioned to outperform, especially if commodities prices experience a rebound. Aegis employees have in excess of $23 million invested in the Fund. Please know that we continue to carefully monitor the portfolio for emerging risks.

Should you have any questions, our shareholder services reps are available at (800) 528-3780. You are also welcome to call me personally at (571) 250-0051.

Sincerely,

Scott L. Barbee
Portfolio Manager
Aegis Value Fund

Please see the following page for important information.

The Aegis Value Fund is offered by prospectus only. Investors should carefully consider the investment objectives, risks, charges and expenses of the fund. The Statutory and Summary Prospectuses contain this and other information about the Fund and should be read carefully before investing. To obtain a copy of the Fund's Prospectus please call 1- 800-528-3780 or visit our website www.aegisfunds.com, where an on-line version is available.

Mutual fund investing involves risk. Principal loss is possible. Investments in foreign securities involve greater volatility and political, economic and currency risks and differences in accounting methods. Investments in smaller and mid-cap companies involve additional risks such as limited liquidity and greater volatility. Investment concentration in a particular sector involves risk of greater volatility and principal loss. Value stocks may fall out of favor with investors and underperform growth stocks during given periods.

The Fund's top ten holdings are Alliance One International Inc., Alaska Communications Systems Group Inc., Delta Apparel Inc., Resolute Forest Products Inc., Fly Leasing Ltd., Geodrill Ltd., Conifer Holdings Inc., Amerigo Resources Ltd., Dundee Precious Metals Inc., and WPX Energy Inc. As of June 30, 2017, the stocks represent 9.6%, 7.0%, 6.1%, 5.4%, 4.2%, 3.9%, 3.9%, 3.4%, 3.3%, and 3.3%, of total Fund assets respectively. Fund holdings are subject to change and should not be considered a recommendation to buy or sell a security. Current and future portfolio holdings are subject to risk.

Price to Book: A ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share. Book Value: A company's common stock equity as it appears on a balance sheet. EBITDA: Earnings before interest, taxes, depreciation, and amortization expense. S&P 500 Index: An index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. Russell 2000 Value Index: measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values. Russell 2000 Index: measures the performance of the small-cap segment of the U.S. equity universe and is constructed to provide a comprehensive and unbiased small-cap barometer. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. Cash Flow: A revenue or expense stream that changes a cash account over a given period. Debt-to-GDP ratio: the ratio between a country's government debt and its gross domestic product (GDP). MVIS Global Junior Gold Miners Index: The modified market cap-weighted index tracks the performance of the most liquid junior companies in the global gold and silver mining industry. ETF (Exchange-Traded Fund): A security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. Tangible Book Value: The net asset value of a company, calculated by total assets minus intangible assets (patents, goodwill) and liabilities. VanEck's GDXJ: An exchange traded fund that seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the MVIS™ Global Junior Gold Miners Index (MVGDXJTR), which is intended to track the overall performance of small-capitalization companies that are involved primarily in the mining for gold and/or silver. P/E ratio: the measure of the share price relative to the annual net income earned by the firm per share. Cryptocurrency: a digital or virtual currency that uses cryptography for security. PEG ratio (price/earnings to growth ratio): a valuation metric for determining the relative trade-off between the price of a stock, the earnings generated per share (EPS), and the company's expected growth. EV/Sales (Enterprise value/sales): a financial ratio that compares the total value (as measured by enterprise value) of the company to its sales. Free cash flow yield: an overall return evaluation ratio of a stock, which standardizes the free cash flow per share a company is expected to earn against its market price per share. Bloomberg Commodity Total Return Index: is a broadly diversified commodity price index distributed by Bloomberg Indexes.

Diversification does not guarantee a profit or protect from loss in a declining market.

An investment cannot be made directly in an index.

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