AEGIS Value Fund

Portfolio Manager's Letter
First Half Ended June 30, 2018

July 23, 2018

Table 1: Performance of the Aegis Value Fund as of June 30, 2018

		Annualized					
	Six Month	One Year	Three Year	Five Year	Ten Year	Since I Share Inception*	Since A Share Inception*
Aegis Value Fund Cl. I	4.83%	27.30%	15.79%	5.71%	8.61%	10.32%	NA
Aegis Value Fund Cl. A at NAV	4.66%	26.96%	15.54%	NA	NA	NA	3.72%
Aegis Value Fund Cl. A-W/Load	0.74%	22.18%	14.08%	NA	NA	NA	2.81%
Russell 2000 Value Index	5.44%	13.10%	11.22%	11.18%	9.88%	8.46%	8.89%

** **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 1.53% and 1.70%, respectively. The Fund's Class I and Class A net annualized expense ratio, after fee waiver and/or expense reimbursement and management fee recoupment, 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 4/30/2019.

The Aegis Value Fund delivered a 4.83 percent return during the first six months of 2018, slightly underperforming the Russell 2000 Value benchmark, which gained 5.44 percent. In a reversal of the trend in recent years, large-cap stocks underperformed, with the S&P 500 Index climbing just 2.65 percent in the first half of the year.

The S&P 500's modest gains masked a short period of significant turmoil that included a ten percent decline in February amid rapidly accelerating price volatility, leading to the quick and well-reported demise of a couple of investment vehicles engaged in leveraged volatility speculation. While the turmoil appeared short-lived, and price volatility of the S&P 500 subsided almost as quickly as it had surged, volatility levels at mid-year nevertheless remained at nearly double the 53-year lows reached in 2017.

In many ways, the economy appears to be running "hot," with the Conference Board's Consumer Confidence Index registering its highest levels in 15 years. The NFIB's Small Business Optimism Index also delivered the highest readings in its 45-year history with the sole exception of a single reading in 1983. S&P 500 Index earnings expectations, spurred on by the recent passage of U.S. corporate tax cuts, are experiencing significant upward revisions, with Goldman Sachs recently raising S&P 500 earnings estimates by 14 percent. Unemployment rates have declined to a 49-year low, which has accelerated wage growth rates to levels as high as 2.7 percent in recent weeks. With the economy gaining steam, consumer prices are now also rising at the fastest pace in six years on the back of West Texas Intermediate (WTI) crude prices, which climbed 22.7 percent during the first half of the year.

With strongly positive earnings revisions occurring in the context of modest equity price gains, earnings valuation multiples have decreased slightly. Nevertheless, the market remains quite fully priced, with Goldman Sachs indicating the median S&P 500 stock recently traded at the 97th historical overall valuation percentile over the last 40 years, as seen in Table 2. Furthermore, earnings-based valuation levels today reflect record high corporate profit margins, which may not be sustainable as increasing wages, soaring crude oil prices and the rising costs of other inputs have the potential to bite into corporate profitability.

Increasing trade frictions also began to capture the limelight, impacting markets in the first half of 2018 as the United States announced a series of tariffs. These most recently have included new proposed tariffs on nearly $400 billion of Chinese imports. The Trump administration's aggressive trade posture is an increasingly stark reversal of several decades of trade policy historically targeted towards lowering barriers and freeing markets from tariffs. While the overall economic impact of the Trump Administration's new taxes and levies on trade has to-date been modest, the revised U.S. posture has already sparked retaliatory tariffs and has the potential to ignite a trade war that risks severe damage to the

Table 2: S&P 500 Median Valuation at the 97th Historical Percentile Relative to the Last 40 Years

	Median stock	
S&P 500 valuation metric	Current	Historical %ile
EV/Sales	2.9 x	98
EV/EBITDA	11.8 x	96
Price/Book	3.3 x	97
Cash flow yield (CFO)	6.80%	98
Forward P/E	16.8 x	81
Free cash flow yield	3.80%	61
Median metric		97%

Source: FRB, Compustat, FactSet, Goldman Sachs Global Investment Research (Data as of June 19, 2018)

health of the global economy. Given the historic role of the Smoot Hawley tariffs in intensifying the Great Depression, investors are understandably becoming increasingly concerned about the abandonment of free-trade principles that have for so long been supportive of wealth creation and improved living standards throughout the world.

The accelerating pace of new trade tariff announcements, as well as the Federal Reserve's two rate hikes so far in 2018, carried the dollar higher against most major global currencies in the first half. While the Euro lost 2.7 percent and the Canadian Dollar declined 4.3 percent against the U.S. Dollar, several emerging market currencies faced even greater deterioration as the nearly $11.4 trillion of US Dollar-denominated debt to non-bank borrowers outside of the United States once again began to bite. The Brazilian Real was off against the dollar by a massive 14.6 percent. Supporting US Dollar strength has been the increasing interest rate differentials between the United States, where the 10-year Treasury rose by 44 bps in the first half to 2.85 percent, and the rest of the industrialized world, where quantitative easing and near-zero interest rates generally remain the norm.

The strong dollar negatively impacted precious metals, with gold dropping 3.9 percent and silver losing 4.8 percent. With gold prices on the decline, precious metals mining stocks also fell, with the MVIS Global Junior Gold Miners Index softening by 4.4 percent over the first half of the year. Having started the year holding 19 precious metals mining equities aggregating to approximately 22.8 percent of Fund assets, the Fund had difficulty keeping up with the Russell 2000 Value Index given the headwinds experienced in the precious metals complex. Overall, the Fund's precious metals miners negatively impacted first half Fund returns by approximately 2.4 percentage points. While the announced acquisitions of several of our precious metals miners generally helped results in the first half, we experienced a difficult 60 percent decline in our position in **Alio Gold (ALO-TO)**, a gold miner with two assets in Mexico. Alio recently acquired **Rye Patch Gold (RPM-TO)**, another precious metals mining company that had been facing challenges. At Rye Patch, financial conditions had been tightening as the company struggled to get its Florida Canyon mine in Nevada into production, giving Alio the opportunity to make an opportunistic purchase. While we believe Alio's acquisition alleviated the near-term financial pressure Rye Patch was experiencing at Florida Canyon and should eventually perform well for Alio, investor concern about the Florida Canyon start-up continues. Furthermore, a far-left, populist candidate was recently elected President of Mexico, which has weighed on shares of many mining companies with Mexican assets. While we certainly have concerns about the political situation in Mexico, we believe any impact on Alio shares has now been more than discounted by the significant price decline. Despite costing the Fund approximately 1.60 percentage points in the first half, we intend to hold our position in anticipation of a recovery. We continue to believe that the precious metals mining segment represents an opportunistic area of the market with many potential investments having strong risk/return profiles, and intend to remain invested in our carefully chosen set of mining stocks. While we believe the highly unconventional monetary policy pursued by central banks globally over the last several years has the potential to drive gold and silver prices significantly higher, we typically invest in the precious metals miners based on our projected assessment of their ability to execute on specific, event-driven, high-return operational achievements, with the potential success of our investment thesis not typically contingent upon commodity price appreciation.

Negatively impacting first-half performance was also the Fund's **Alaska Communications (ALSK)** position, which lost about a third of its value, costing the Fund 1.95 percentage points. Fundamentals at the Alaska telephone and internet provider came under pressure after valuable subsidies, paid to Alaska Communications under the U.S. Federal Communications Commission Rural Health Care Program, were suddenly cut back amid Program budget overruns, resulting in write-downs and increased financial pressure at the company. Furthermore, investor sentiment was damaged as the company enacted what we considered to be onerous and disingenuous restrictions on large shareholders after a telecom activist and large Alaska shareholder engaged in a public proxy fight in an effort to obtain Board representation.

Fortunately, the activist prevailed, which we believe is likely to bring an important fresh perspective to the Board. Moreover, during the last few weeks, the Rural Health Care program budget was significantly expanded, which we believe should alleviate a significant amount of the financial pressure recently faced by the company. At mid-year, the Fund held a 3.0 percent position in Alaska Telecom. We currently intend to continue holding our position in Alaska Telecom in anticipation of a recovery in share prices.

More positively impacting Fund returns in the first half of the year was the Fund's largest position, Alliance One International (AOI). After starting the year at a price of $13.25, shares of our long-held global tobacco leaf dealer soared to $30 after the company announced the acquisition of two fledgling Canadian cannabis-related companies and a small U.S.-based hemp business. Investors have been piling into Canadian cannabis companies in the last couple of years, spurred-on by the pending legalization of recreational cannabis throughout Canada. The speculative frenzy has driven the aggregate market capitalization of the Canadian cannabis investment universe above Can. $30 billion, a valuation that is incredibly now more than three times some analyst estimates for aggregate annual Canadian cannabis revenues in 2023. Cannabis investors have been willing to pay sky-high market valuations in the hope that these companies will rapidly grow as worldwide cannabis consumption soars over the next few years to future estimates of worldwide revenue some place as high as $200 billion. Despite the lofty valuations, as of today many companies in the Canadian cannabis universe have yet to generate meaningful profits. While Alliance One's new "One Tomorrow" initiative may eventually bear fruit, we concluded that the stock's rapid ascent had gotten ahead of corporate fundamentals, which are currently still primarily tobacco-based. Furthermore, we were increasingly concerned over the growing size of the position in the Fund as shares ascended. Even at the start of the year, Alliance One had already been the Fund's largest holding, representing approximately 7.9 percent of Fund assets. As investors bid up the company share price, buying pressure further intensified as Alliance One reached the threshold market capitalization to be once again added to the Russell 2000 Index. We took advantage of the buying frenzy as an opportunity to trim back our substantial holdings, raising $12.5 million overall as we liquidated well over half our position. As the first half of the year came to a close, our efforts to liquidate appeared on-target. Investor sentiment rapidly shifted and Alliance One shares declined, closing June at just $15.85. Given the Fund's opportunistic sales, despite the share price retrenchment our position in AOI nevertheless remained the top performer for the Fund, positively impacting first half performance by meaningful 5.74 percent. At the end of the half of 2018, the Fund continued to retain a 3.6 percent position in Alliance One.

The Fund's biggest purchase in the first half of 2018 was Conifex Timber (CFF.TO), a Can. $270 million market-cap, North American lumber producer founded by Raymond James Canada ex-CEO Ken Shields. Conifex recently acquired 370 million board feet of additional lumber sawmill capacity in the U.S. Southeast, bringing its overall capacity to just under 1.1 billion board feet. While this $221 million acquisition stretched the balance sheet, increasing debt to Can. $330 million, we believe the acquisition has the potential to significantly enhance the company's business platform, giving the company the opportunity to improve margin through scale-related efficiencies. Furthermore, with an estimated $125 million of future annual EBITDA, pro-forma for the acquisition and presuming sustained lumber prices near today's U.S. $500 per thousand board feet level, we believe Conifex should have plenty of cash flow capacity to pare down its debt. With homebuilding in the United States now strengthening after nearly a decade of below trend activity, we believe the outlook for lumber is likely to be bright. Furthermore, Conifex has a biomass power generation facility at Mackenzie in British Columbia that was constructed in 2015, which provides Can. $13-15 million of the company's EBITDA. We believe if liquidity was required, the Mackenzie biomass facility could be sold to power investors at a strong valuation near 8x EBITDA. With the company overall trading with free cash flow of almost Can. $80 million, or less than four times its $270 million market-cap, we believe Conifex shares represent a worthwhile investment. Ken Shields and other insiders continue to hold a meaningful stake of 7.4 percent in the company. At mid-year, the Fund's Conifex position represented 2.9 percent of Fund assets.

With market valuations remaining at near all-time highs, finding companies trading at cheap valuations has been a challenge. Graphically, the reduced opportunity set we have been dealing with can be observed in Figure 3, where the number of stocks on our watchlist of companies with more than $70 million in market-cap trading under book value remains near 10-year lows. We are continuing to work diligently to find investments with solid risk/return profiles, with the goal of full investment in deeply researched stocks trading at steep discounts to fundamental value. However, in the absence of a sufficiently robust opportunity set of acceptable investment candidates, we will not hesitate to hold higher levels of cash. In fact, during the first half of 2018, we held an average of 22 percent of Fund assets in cash and Treasuries. The Fund's recent high cash levels have been a result of our sell discipline, as we liquidated several investments reaching full value over the last several months in order to manage risk. While cash can clearly impact returns in a strong bull market, conversely cash can also insulate the Fund from losses in down markets. Although the Fund's high cash levels dampened Fund returns in the first half, we intend to continue to perform our research and due diligence with the same depth and deliberation that has served us well in the past. With the market already nearly priced to perfection, and with the prospect of additional rate increases, more quantitative tightening and a trade war potentially on the horizon, it is unlikely that our careful and measured pace of cash reinvestment will serve us poorly in the months ahead. That said, our goal continues to be full investment in a diversified portfolio of sufficiently and significantly undervalued equities.

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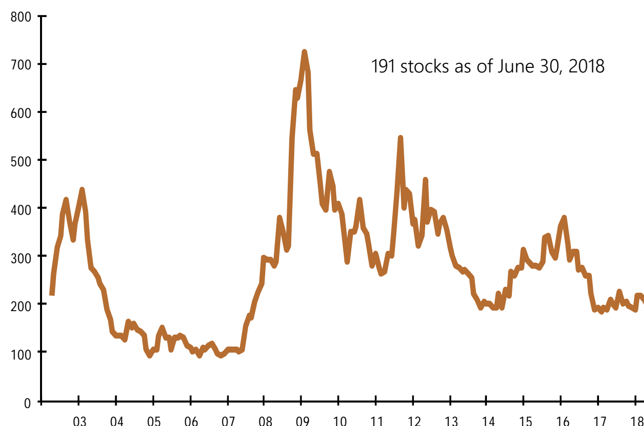
Figure 3: Number of Stocks Selling Below Tangible Book Value (Market Cap. Greater Than $70 Mil)



Source: U.S. public equity market statistics from Stock Investor Pro (Data from 4/30/2002 to 06/30/2018)

Figure 4: Aegis Value Fund and S&P 500 Index Historical Price-to-Book Ratio

Source: Aegis Financial Corp and Bloomberg (Data from 9/30/1998 to 06/30/2018)

We continue to hold an outsized position in materials names, where historic price volatility in recent years has suppressed investor interest, sending valuations to levels that we believe more than discount the inherent commodity risk incurred. The Fund continues to hold significant investment in precious metals mining, in pulp, lumber, & paper, and also in base metals mining. Energy remains another area in which the Fund continues to find interesting opportunities, as many energy-related companies have failed to keep pace with the rapidly strengthening crude prices over the last 12 months. At mid-year, Aegis held 11.3 percent of assets in energy-related equities.

Overall, the Fund continues to be invested in a portfolio of well-researched equities that we believe are as out of favor and deeply undervalued as any in the market today. Fortunately, the Fund continues to be of a size small enough to provide flexibility, allowing the Fund to find and obtain meaningful positions in overlooked smaller companies amid a broad market that does not look particularly cheap. As can be seen in Figure 4, the Fund continues to trade at an increasingly large discount to the broader market S&P 500 Index on an average price-to-book basis. Aegis employees own approximately $30 million in Fund shares. We remain highly focused on managing risk in the portfolio. Should you ever have any questions, our shareholder 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.

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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 Amerigo Resources Ltd., Fly Leasing Ltd., WPX Energy Inc., Resolute Forest Products Inc., Geodrill Ltd., Alliance One International Inc., Leagold Mining Corp., Dundee Precious Metals Inc., Delta Apparel Inc., and Alaska Communications Systems Group Inc., As of June 30, 2018, the stocks represent 4.9%, 4.8%, 4.6%, 4.6%, 4.1%, 3.6%, 3.4%, 3.2%, 3.0%, and 3.0%, 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. Tangible Book Value: The net asset value of a company, calculated by total assets minus intangible assets (patents, goodwill) and liabilities. P/E ratio: the measure of the share price relative to the annual net income earned by the firm per share. 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. Price/Sales: A valuation ratio that compares a company's stock price to its revenues and an indicator of the value placed on each dollar of a company's sales or revenues. Conference Board's Consumer Confidence Index (CCI): An index by The Conference Board that measures how optimistic or pessimistic consumers are with respect to the economy in the near future. NFIB Small Business Optimism Index: The small business optimism index is compiled from a survey that is conducted each month by the National Federation of Independent Business (NFIB) of its members. The index is a composite of 10 seasonally adjusted components based on the following questions: plans to increase employment, plans to make capital outlays, plans to increase inventories, expect economy to improve, expect real sales higher, current inventory, current job openings, expected credit conditions, now a good time to expand and earnings trends credit conditions, now a good time to expand and earnings trend. Smoot–Hawley Tariff: An Act implementing protectionist trade policies sponsored by Senator Reed Smoot and Representative Willis C. Hawley and was signed into law on June 17, 1930. 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. Basis Point (bps): One 100th of one percent. Market capitalization: The total dollar market value of a company's outstanding shares.

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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