AEGIS Value Fund

Portfolio Manager's Letter
First Half Ended June 30, 2019

July 31, 2019

Table 1: Performance of the Aegis Value Fund as of June 30, 2019

		Annualized					
	Six Month	One Year	Three Year	Five Year	Ten Year	Since I Share Inception*	Since A Share Inception*
Aegis Value Fund Cl. I	12.76%	-10.70%	8.66%	0.54%	12.95%	9.22%	NA
Aegis Value Fund Cl. A at NAV	12.62%	-10.90%	8.42%	0.31%	NA	NA	0.81%
Aegis Value Fund Cl. A-W/Load	8.37%	-14.25%	7.06%	-0.45%	NA	NA	0.09%
Russell 2000 Value Index	13.47%	-6.24%	9.81%	5.39%	12.40%	7.72%	5.89%

* *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 1.52% and 1.53%, 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 4/30/2020.

The Aegis Value Fund returned 12.76 percent in the initial six months of 2019 as the broad stock market registered its strongest first half performance in 22 years, recovering markedly from its late 2018 swoon. In doing so, the broad market shrugged off softening economic performance and escalating global trade frictions. By mid-year, the S&P 500 had delivered a sizeable, 18.54 percent gain after the Federal Reserve's "dovish pivot" halted its three-year, nine rate-hike tightening cycle and spurred equities higher. Stocks in the information technology, consumer discretionary, and industrial sectors delivered the strongest returns, while energy and healthcare sector stocks lagged.

The Aegis Value Fund's solid first half performance was dragged down by the Fund's recent focus on the energy sector, where we have been growing our positions as prices have come down. At mid-year, energy sector investments totaled to an outsized 20.6 percent of Fund assets. While energy sector stocks negatively impacted Fund first-half returns by an estimated 2.33 percentage points, we are optimistic about the future performance of our positions given the significant disconnect recently arising as energy equities have generally ignored the first half rise in energy prices. Despite WTI crude oil soaring by 28.8 percent over the first six months of the year as OPEC production discipline and increased sanctions on Iran and Venezuela crimped supply, investors have shown little interest in energy equities, in fact trading many equities in the sector down to near 52-week lows.

When evaluating the possible causes of today's investor antipathy towards energy equities, we suspect a major culprit has been the previous capital investment boom, which virtually assured an ensuing period of poor return on investment after the price of oil plunged from its multi-year perch in 2014. With the roughly 70 percent drop in oil from levels previously exceeding $100/barrel in 2014-2016, and with several unsettling oil price swings having occurred since, investors are currently finding the volatility in the energy space difficult to stomach. In today's index and quant-driven world where historic price volatility is often used as a proxy for prospective investment risk, the large caps of the S&P 500 Index have enticed investors with a much smoother glide higher with much less turbulence.

Adding fuel to the fire, energy equities are also suffering from growing aversion towards fossil fuel investment by ESG (Environmental, Social, Governance)-oriented investors. For example, this past March, Norway's $1 trillion sovereign wealth fund announced that it would be divesting certain of its fossil fuel investments, an unusual move, particularly for the government of Western Europe's largest oil producing country. We are optimistic that this selling of energy stocks unrelated to long-term energy fundamentals provides opportunity for those who remain to earn higher future returns while providing the capital needed to help keep world energy prices affordable.

With buyers of energy equities now largely on the sidelines and with concerns rising over trade-wars and global economic risks, energy stocks are clearly the outcasts, with many investors now calling the sector "uninvestable." The result is a significant number of bargain priced securities in the sector, particularly among small-caps. While we also have concerns over the health of the global economy and its impact on energy demand, with today's multitude of energy stocks down more than 50 percent from their 2018 highs, we see the sector as already priced for economic downturn – an outcome that is far from certain.

In fact, behind the scenes, many of our oil & gas exploration and production (E&P) portfolio companies have been delivering significant technological improvements over the last several years, including cheaper wells, faster drilling and completion cycles, longer horizontal laterals, and improved processes to fractionate the oil bearing rocks. We understand that these enhancements have driven breakeven oil price levels materially lower. Many firms have also diligently hedged out a significant portion of their future oil production to protect investments made to drill and develop acreage.

Several of our North American E&P portfolio companies today trade at material discounts to the value of their proven reserves, not to mention the value of their additional undeveloped land positions, which are in some cases extensive. With sufficient exploratory drilling having occurred in recent years to de-risk acreage and retain mineral rights by production, our portfolio companies now generally have broad latitude and flexibility to curtail drilling and run off their reserves should oil prices deteriorate or debt pay-down be required. Today, we believe several of our E&P companies are at an interesting inflection point whereby additional material production growth can be fully funded by internally generated cash flow, eliminating reliance on capital markets for new funding. We believe the significant undeveloped acreage held by many of the spurned E&P companies in our portfolio provides these companies with what looks to us like materially underpriced long-term call options on the future price of crude oil. In turn, these holdings offer the Fund the prospect for strong and asymmetric returns should oil prices continue to climb.

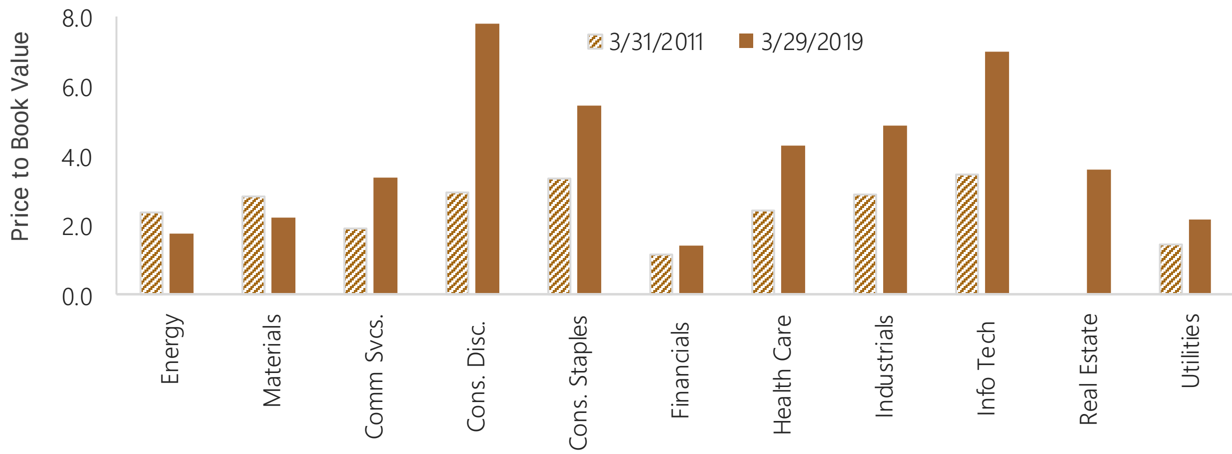
Over the last year, we have built positions in Penn Virginia (PVAC), Highpoint Resources (HPR), Sundance Energy (SNDE), and Lonestar Resources (LONE), often purchasing additional shares in these domestic oil exploration and production companies as prices declined. Penn Virginia was the Fund's largest first-half acquisition, while Highpoint Resources was the Fund position that detracted the most from first half returns. Highpoint cost the Fund an estimated 1.3 percentage points as oil's decline compounded investor fears over perceived drilling restrictions in Colorado as well as anxiety over its recently acquired Hereford field. Fortunately, a few of the Fund's other energy holdings, like Strad Inc. (SDY-TO), which gained 38.5 percent in the first half, mitigated the overall impact from the recent declines experienced in several other of our energy holdings. While our energy-related holdings on the whole dragged on first half returns, we intend to hold these positions in anticipation of a strong future recovery.

The Fund's largest first-half gainer was Fly Leasing (FLY), which added 3.5 percentage points to Fund performance as shares of this hefty position climbed by nearly 65 percent. Management of the global aircraft lessor significantly levered up the company in mid-2018 to close an opportunistic acquisition of a large package of aircraft from AirAsia. Since completing the AirAsia transaction, the company has been in syndication mode, actively selling off several older vintage aircraft, including several just recently acquired, recognizing strong gains and significantly de-levering the balance sheet. Net debt is now down to 3.4 times EBITDA from 4.7 times just following the AirAsia deal and its debt is well-termed. Fly Leasing recently introduced a new $50 million share repurchase plan, restarting a program that has shrunk share count dramatically over the last five years. The significant size of the new plan, if completed near today's prices, should drive robust shareholder returns, as shares trade at a 25 percent discount to what we believe is an understated book value. Even without the book value gains from aircraft sales or share repurchase accretion, the company has the potential to earn $2.50 to $3.00 per share, implying an equity valuation, even after the recent gains, of just 6 times recurring earnings. At mid-year, Fly Leasing represented 8.1 percent of Fund assets.

The Fund's precious metals mining positions also experienced strong first half gains, as a 9.9 percent rise in the price of gold helped propel the MVIS Junior Gold Miner's Index higher by 16.7 percent . Gold's recent rise saw it break through its multi-year range to top $1,400/ounce, driven primarily by the Federal Reserve's recent and rapid reversal of its hawkish stance on rates as fears over tariffs and trade tensions weighed on the global economy. The Fund's twelve precious metals mining positions, aggregating to 23.5 percent of Fund assets at the start of the year, added a cumulative 7.0 percentage points to Fund performance in the first half. Shares in Dundee Precious Metals (DPM-TO) and Continental Gold (CNL-TO) led the gains. In Dundee's case, the company's new Krumovgrad gold mining project achieved commercial production and was completed under budget without serious impediment. Similarly, in Continental Gold's case, significant construction development progress coupled with a successful capital raise that remedied a lingering project financing overhang materially de-risked its flagship Buritica gold project.

Our investment thesis with respect to each of our precious metals mining holdings is not predicated on an increase in gold prices. In every case, after detailed fundamental analysis, we concluded that shares were significantly undervalued relative to future cash flows presuming static, or even lower gold prices. However, despite gold prices having recently surged higher, mining stock prices have been slow to keep pace. As a result, valuations appear to still be meaningfully discounted, even given the gains many mining stocks have made so far this year. Similar to the dynamics seen in the energy sector, we attribute the disconnect to the dearth of active, fundamentally-oriented investors in the sector in recent years after the MVIS Junior Mining Index lost nearly 77 percent of its value from 2011-2018. Given the future cash flows that our holdings could prospectively generate at today's gold price, we believe many of our precious metals mining investments have the potential to double in value from today's levels.

Figure 1: Price-to-Book Value of the various sectors of S&P 500 *



** In 2011, S&P GICS included Real Estate as part of Financial Services*

Source: Bloomberg (Data from 03/31/2011 to 03/29/2019)

We find it perplexing that the mining sector has failed to attract more interest, particularly given that the macroeconomic setup appears to be supportive of gold prices in the intermediate term. Debt relative to GDP worldwide has continued to climb since 2009, and US federal debt has now hit roughly $22 trillion (~$70,000 per capita). Furthermore, out-of-control U.S. Federal Government spending will require approximately $1 trillion in additional deficit-related borrowing this year. With outlays for defense and social entitlements climbing, the outlook for future fiscal balance appears pretty bleak. In time, we anticipate that these high debt levels will likely be eventually resolved through a process of inflation and dollar devaluation which has the potential to bolster the dollar prices of hard assets like gold. Even small changes in investor propensity to hold gold over dollar-denominated debt can drive significant increases in worldwide gold demand. Furthermore, with substantial new gold mining projects around the globe in short supply following years of exploration neglect and with existing gold mines facing depletion over time, we suspect any demand growth is likely to be highly conducive to price increases.

Sticking with the unloved and underfollowed theme more broadly, JP Morgan recently observed that value equities were trading at close to 20-year low valuations relative to the broad market, and at levels representing approximately 40-year lows relative to the valuations of stocks classified as having low historic volatility. These findings are consistent with our thesis that the index and quantitative strategy-driven investors of today are conflating historic price volatility with future long-term capital investment risk. As a result, conventional investors are racing to acquire low-volatility stocks even as their buying sends valuation levels skyward, while shunning equities that have shown more pronounced price volatility, no matter how cheap the valuation. We suspect this conventional strategy is likely to eventually experience a bad ending.

As a result, we have been busy pursuing a contrarian approach– acquiring the depressed energy, gold, and materials stocks, many of which have shown higher levels of price volatility in recent years, yet trade at low valuations, while avoiding the consumer discretionary and large-cap technology stocks that have been gently soaring to elevated valuations. The impact of this disparity can be observed in Figure 1, which compares the price-to-book value of the various sectors of the S&P 500 in 2011 and 2019. While the price-to-book multiples of the high-volatility energy and materials sector stocks dropped, the valuation on the rest of the market soared, with the multiples on consumer discretionary and information technology sector stocks showing the most dramatic increases. Given the significant disparity seen, it is little surprise that energy and materials stocks last quarter comprised a massive 29 percent of our discount-to-book watchlist, up dramatically from just seven percent in 2011.

We intend to hold our outsized positions in energy, precious metals and other materials stocks because they trade at low multiples relative to our estimates of expected future cash flow and at a significant discount to the broad market. While these stocks are currently dejected, perhaps on account of their historic volatility, we believe they represent excellent value and offer long-term oriented investors the prospect of strong future returns.

Outside of our energy and precious metals names, at mid-year we also held 11.3 percent of the Fund in aircraft leasing, primarily FLY Leasing (FLY) and Aercap (AER). We believe these undervalued companies provide the Fund with a nice hedge to our energy stocks, as high oil prices typically represent one of the biggest threats to global air-travel demand. We also hold 11.6 percent of the Fund in paper and forest products stocks comprised of stakes in Mercer International

(MERC), Interfor (IFP-TO), Resolute Forest Products (RFP) and Conifex Timber (CFF-TO). This sector has generally been under pressure as softness in new home starts has damaged lumber demand and trade tensions have roiled the market. We hold significant positions in several additional undervalued special situations, including Alaska Communications (ALSK), basic apparel producer Delta Apparel (DLA), specialty retailer CitiTrends (CTRN), property & casualty insurance company Conifer Holdings (CNFR), and copper tailings processor Amerigo Resources (ARG-TO). In June, we sold out of our remaining stake in tobacco leaf processor and distributor Pyxus International (PYX), our largest contributor to 2018 Fund performance, as we became concerned over the company's ability to refinance its sizeable debt, which is scheduled to come due within the next couple of years.

Overall, we continue to hold a portfolio of judiciously selected and carefully researched securities offering what we believe are among the most optimal risk/return tradeoffs available to investors in the equity markets today. Aegis employees and their families own in excess of $27 million of Fund shares. We continue to carefully monitor our Fund portfolio for emerging risks. Should you have any questions, our shareholder representatives 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 Fly Leasing Ltd., Strad Inc., Amerigo Resources Ltd., Mercer International Inc., Dundee Precious Metals Inc., Leagold Mining Corp., Delta Apparel Inc., Geodrill Ltd., Alaska Communications Systems Group Inc., Highpoint Resources Corp. As of June 30, 2019, the stocks represent 8.1%, 5.5%, 5.4%, 4.9%, 4.8%, 4.5%, 4.2%, 4.1%, 4.1%, and 3.4%, 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. 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. 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. 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. Debt-to-GDP ratio: the ratio between a country's government debt and its gross domestic product (GDP). OPEC: The Organization of the Petroleum Exporting Countries. WTI: West Texas Intermediate is a grade of crude oil used as a benchmark in oil pricing. ESG (Environmental, Social and Governance) is a set of standards for a company's operations that socially conscious investors use to screen potential investments. **EBITDA:** Earnings before interest, taxes, depreciation and amortization expenses.

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

An investment cannot be made directly in an index.

Opinions expressed are subject to change at any time, are not guaranteed and should not be considered investment advice.

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