AEGIS Value Fund

AEGIS FUNDS

Portfolio Manager's Letter
Second Half Ended December 31, 2020

January 25, 2021

Table 1: Performance of the Aegis Value Fund as of December 31, 2020

	One Year	Annualized Three Year	Five Year	Ten Year	Since Inception 5/15/98
Aegis Value Fund (AVALX)	18.72%	7.39%	19.93%	8.63%	9.94%
S&P Sm. Cap 600 Pure Value Index ^	-4.20%	-1.63%	5.28%	6.72%	N/A
S&P 500 Index	18.40%	14.18%	15.22%	13.88%	7.56%
Morningstar Percentile Ranking *	7	7	1	32	
Funds in Small Value Category	400	384	382	340	

** Morningstar Percentile Ranking is based on total return. ^Available performance data for the S&P SmallCap 600 Pure Value Index prior to the December 16, 2005 inception date of this Index cannot be shown as display of pre-inception Index performance data is not permitted. 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. The Fund has an annualized gross expense ratio of 1.63% and a net annualized expense ratio, after fee waiver and/or expense reimbursement and management fee recoupment, of 1.50%. Under the waiver, the Advisor has contractually agreed to limit certain fees and/or reimburse certain of the Fund's expenses through 4/30/2021.*

Dear Aegis Investors:

In what will certainly go down as one of the more unusual years in recent market history, the Aegis Value Fund delivered an 18.72 percent return in 2020, significantly outperforming the S&P 600 Pure Value Index, its small-cap deep-value benchmark, which declined 4.20 percent. In fact, the Aegis Value Fund also managed to slightly outperform the S&P 500 Index, which tacked-on yet another 18.40 percent. After the excellent performance in 2020, the Aegis Value Fund now has a five-year annualized return of 19.93 percent. During the last five years, which have not been friendly to deep-value small cap stocks, Aegis has exceeded S&P 500 returns by a competitive 4.71 percentage points per annum and has trounced the S&P 600 Pure Value benchmark by a massive 14.65 percentage points per annum. As can be seen in the table above, our strong five-year performance has resulted in the Aegis Value Fund placing in the first percentile among the 382 tracked mutual funds in Morningstar's Small-cap Value category.

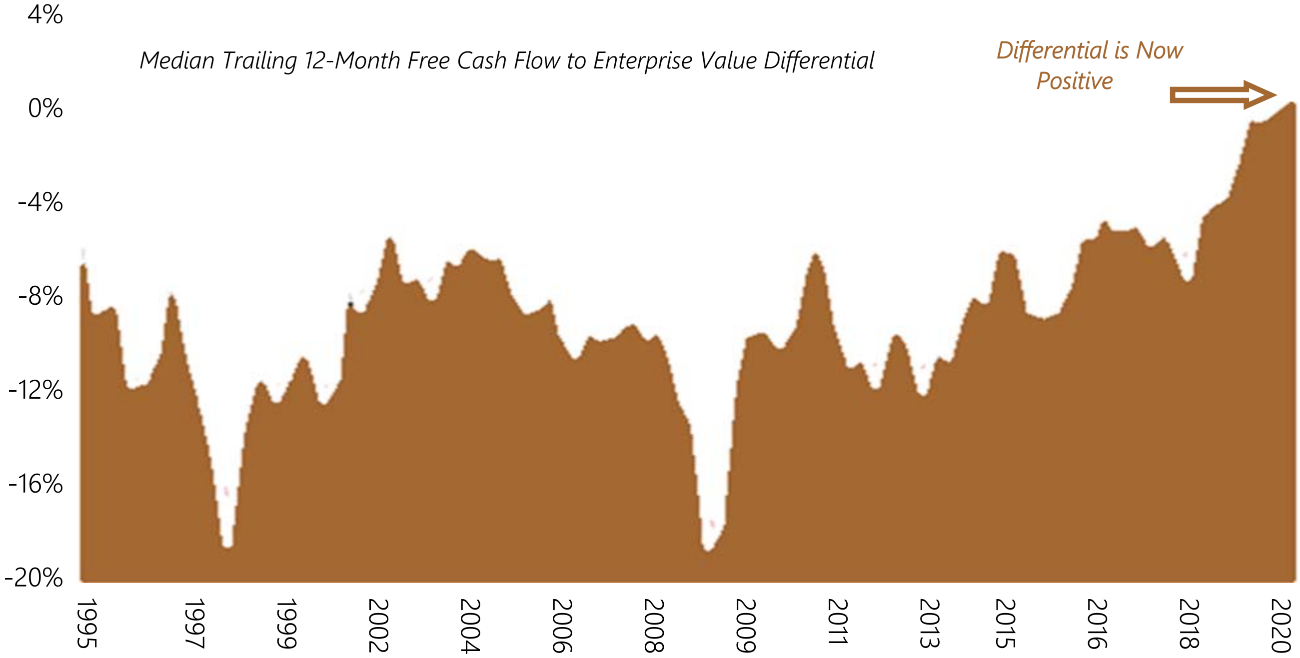
2020 Review

Major market indices rebounded dramatically off their March lows as unprecedented levels of both monetary and fiscal stimulus provided mountains of liquidity which more than offset the near-term impacts of Covid on stock prices. The result was a rapid rebound in equities. Later in the year as the contentious national election season in the US drew to a close, news of Covid vaccine efficacy and a perceived improvement in prospects for a return to normalcy further boosted investor sentiment, sending many cyclical stocks soaring in November. As the year closed, the Dow and the S&P 500 were once-again hitting all-time highs on unrelenting injections of Fed monetary stimulus. When all was tabulated at year-end, the Technology, Consumer Discretionary, Telecom and Materials Sectors of the S&P 500 were the strongest gainers of 2020, with returns of 42.2 percent, 32.1 percent, 22.2 percent and 18.1 percent, respectively. The Energy Sector was the big stand-out loser, declining a sizeable 37.3 percent in 2020, resulting in what was reportedly the largest annual S&P 500 sector return dispersion in history.

Precious Metals Stock Gains Drove Aegis Performance in 2020, Yet Positions Still Appear Undervalued

The Aegis Value Fund entered 2020 with substantial holdings in the precious metals and mining sector, with approximately 26 percent of our Fund assets invested in nine precious metals exploration and mining companies (ten when including Mundoro, a small holding targeting both copper and gold prospects). These investments, comprising roughly one-quarter of our Fund at the beginning of the year, contributed an estimated 21.0 percentage points to the Fund's overall performance in 2020. Our selected mining equities significantly outperformed gold's 24.4 percent annual gain as well as the 30.9 percent gain of the MVIS Global Junior Gold Miners' Index of smaller mining equities. These holdings drove the Fund's outperformance for the year, after suffering an inauspicious first quarter.

Figure 1: Gold Miners Vs. Tech Stocks Free Cash Flow Yield



Source: Bloomberg/Crescat Capital LLC.

Despite the outstanding gains experienced on the Fund's precious metals positions over the last two years, we believe these holdings continue to be well-situated for further gain. Over the last several years, the gold mining industry has been actively working down debt levels, and today many mining firms have pristine balance sheets. Furthermore, with stronger gold prices, the miners are now generating robust cash flows, with resulting average cash flow yields of the top 50 miners now in excess of yields provided by the top 50 technology companies, according to research by Crescat Capital (Figure 1). With many of the major mining companies having held off on investment in exploration in recent years, reserve replacement is proving to be more challenging over time, leading many industry experts to suggest that a wave of junior miner acquisitions is on the horizon. With the recent increase in gold price, our mining stocks remain quite attractively valued when measured against future cash flows or reserves, despite recent equity gains. We believe these holdings have typically been trading at substantial discounts to future cash flows and offer attractive exploration upside. On average, these positions trade at four-to-six times our estimate of projected forward operating earnings, comparing favorably to the S&P 500, which today trades at 31 times trailing operating earnings. Suffice it to say, our mining positions have the potential to go substantially further, particularly should gold also continue its ascent.

Gold's fundamentals strengthened significantly in 2020. The Federal Reserve chose to fund the massive $4 trillion 2020 federal deficit resulting from all the unfunded federal spending on Covid stimulus by printing money, pumping out an unprecedented level of liquidity in an all-out effort to support asset values, stabilize banks, and provide a lifeline to overly levered financial institutions and other entities that might otherwise fail. This digital money printing rapidly swelled the Fed's balance sheet to nearly $7.2 trillion, a near doubling of the monetary base in the span of less than a year. Such monetary debasement is now hollowing out the dollar's longstanding foundations as a reliable store of value, leaving the dollar increasingly susceptible to collapse. With the new Biden administration expressing interest in providing yet another $1.9 trillion round of stimulus spending, and with the Fed and the European Central Bank each continuing to monetize approximately $120 billion worth of Treasuries, European sovereigns, and other securities each month, we believe gold is likely to be increasingly bid higher as investors look for relief from dollar and Euro debasements. Our precious metals mining equities should be quite well positioned should the increasing prospects of a fiat currency crisis materialize, a prospect that we judge as increasingly likely as consumers emerge from their homes and monetary spending velocity increases. Despite our optimistic outlook for these holdings, we took the opportunity to trim a few of our precious metals mining positions during the year, selling down our positions in Equinox Gold and Lion One Metals following large rallies. Nevertheless, at year-end we continued to hold an estimated 33.2 percent of the Fund's assets in ten different precious metals miners.

Energy Investments Were Costly for Aegis in 2020

Our biggest Fund losses in 2020 were our holdings in the energy sector. These stocks declined precipitously in the first quarter. We had entered 2020 with nearly a quarter of our assets invested in a multitude of energy holdings, many of which we judged to be already beaten down, unloved and undervalued. We had been optimistic that oil prices were on the rise, particularly following America's new trade deal with China, which we figured would improve prospects for increased global fuel consumption. Furthermore, increased Middle East tensions following the killing of Iran's General Suleimani had the potential to constrain oil supply from the region.

Unfortunately, the environment rapidly shifted in a matter of weeks as Covid-driven lockdowns swiftly spread across the world, dampening supply. Somewhat surprisingly, Saudi Arabia reacted by increasing production, flooding an oversaturated global oil market with even more crude. By the end of March, West Texas Intermediate crude prices had already experienced a drop in value of nearly two thirds since the start of the year. Many of our energy positions declined precipitously in value as the domestic oil business went into near complete hibernation. Fortunately, our energy investments experienced a partial rebound as mid-year approached after OPEC and Russia reached agreement to curtail production output, providing us the opportunity to exit a few of our holdings facing worrisome debt repayment obligations intensified by oil's plunging prices.

Overall, declines in our energy holdings, mostly occurring during February and March, detracted an estimated 15.1 percentage points from Fund performance in 2020. At year-end, the Fund held 8.7 percent of its assets in energy sector stocks.

Two of Aegis' Biggest Positions Were Bought Out in 2020, Generating Strong Gains

Performance among our energy holdings would have actually been worse had it not been for the gains made on our largest energy holding, Canadian mud-mat provider **Strad, Inc.**, which was sold to its management team in late April in a deal struck and announced before the market's collapse. Gains on the sale of Strad, a massive Fund position and one of the Fund's two biggest liquidations of the year, positively impacted Fund returns by 1.9 percent.

The Fund's largest liquidation of the year was internet and telephone provider **Alaska Telecom**. We sold our entire stake in this large Fund holding into the market realizing a nice gain following the announcement that an outside buyer had agreed to purchase the business at a substantial premium. We had worked diligently behind the scenes over multiple years to successfully improve the Board of Directors and governance at Alaska. New Board members were brought in that were more focused on unlocking shareholder value, and a CEO that we judged to be overcompensated was replaced. Gains on Alaska Telecom contributed an estimated 4.1 percentage points to Fund performance.

The Fund's Biggest New Purchase of 2020, Kenmare Resources, Approximately Doubled in Value

Our largest purchase of 2020 was mineral sands ilmenite producer **Kenmare Resources**, the investment case for which we highlighted six months ago in our mid-year letter. The company, which owns the world-class Moma Titanium Minerals Mine, supplies nearly seven percent of the world's feedstock for making titanium dioxide, used primarily in the manufacture of pigments and paints. The company also produces zircon, which is used in the manufacture of ceramics. At the time of our significant purchase, the company was trading at a depressed valuation of just one-third book value and two times our expectation of the company's 2021 pre-tax operating cash flow. Covid had struck just as Kenmare was in the process of embarking on a critical $110 million reconfiguration project to transport a massive piece of sand-mining dredging equipment out of an area where reserves had been depleted and to a new higher-grade area. Investors were concerned that any delay would prove costly for the company. After doing a number of calls with management, customers and competitors in order to better understand the ilmenite market landscape, we became convinced that the Ilmenite market dynamics were very constructive and that investors were significantly over-estimating Kenmare's project risk, giving us an excellent opportunity for entry. As the year unfolded, our assumptions that the technical and regulatory challenges of the project could be overcome despite Covid proved to be correct. Kenmare executed a successful move and the equipment has now restarted commercial production in a new zone at a pace nicely ahead of plan. Furthermore, the price of ilmenite has turned substantially higher, resulting in the potential for materially higher profit margins on its now-resumed production. The stock price of Kenmare has approximately doubled since our mid-year purchase, and the Fund's Kenmare holdings were responsible for a positive contribution to the Fund's 2020 performance estimated at 3.3 percentage points. Despite the gains, we have chosen to maintain our position in Kenmare for the time being, concluding that future gains on the position are probable given the rapidly tightening Ilmenite market as well as Kenmare's still low cash-flow valuation and its long, 30-plus year ilmenite reserve life.

Pulp and Paper Investments were Also Strong Performers

In mid-2020, the Fund also made significant additional investment into the pulp, paper and forest-products sector, buying or increasing stakes in **Interfor**, **Resolute Forest Products**, **Mercer International** and **Canfor Pulp**. These stocks were unfairly battered in the first few months of the year, and had traded down to significant discounts to book value and to very low multiples of future operating earnings. As 2020 progressed, however, investors were quite slow to recognize the massive rebound in lumber demand that sent North American lumber prices to all-time record highs. Lumber prices roared as Americans cleared out their Home Depots of lumber to build decks and other home improvements during the lockdowns, and new home sales strongly rebounded following several years of slow growth as millennials and others began to re-evaluate their longer-term living requirements amid record-low mortgage rates. Pulp pricing also finally began to rapidly strengthen into year-end as economic activity recovered amid a wrath of maintenancerelated turnarounds that impacted supply. Strong returns on holdings in this sector positively impacted the Fund's 2020 performance by 6.1 percentage points, and the Fund continues to hold 19.8 percent of Fund assets in pulp, paper and lumber stocks.

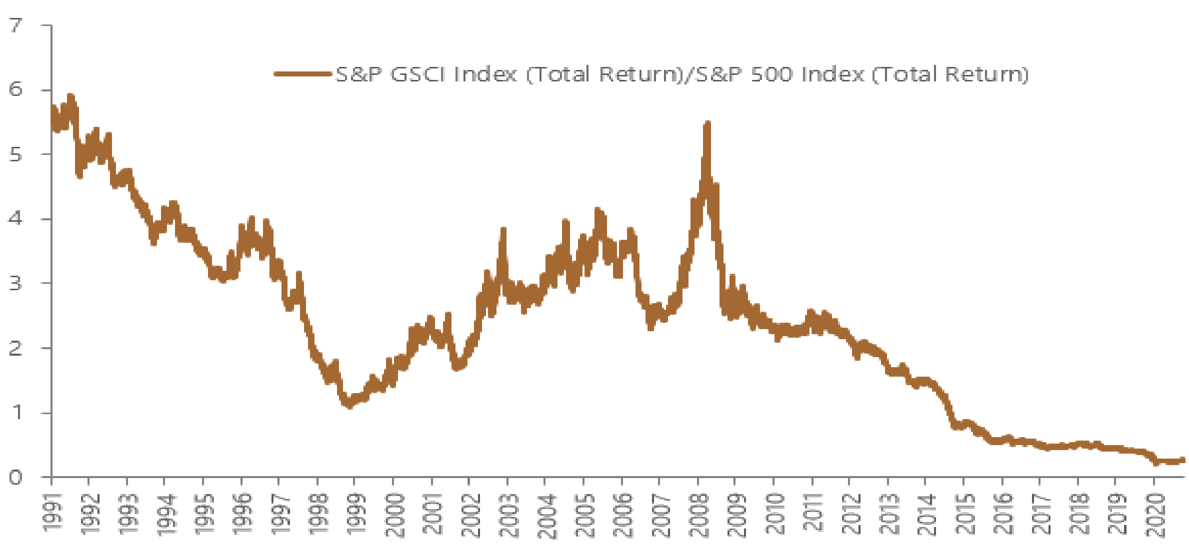
Large Tech Stocks Propelled the S&P 500 in 2020 to Sky-high Valuations, but There May Soon be Trouble in Paradise

In contrast to the Fund, the S&P 500's returns were clearly dominated by explosive gains that occurred in the mega-cap technology stocks perched at the top of the S&P 500 Index. Fueled by continued passive index-oriented inflows, these stocks roared higher in 2020 amid investor giddiness over improved near-term fundamentals as consumers upgraded their technology and changed purchasing behavior to meet Covid's remote living challenges. By year-end, these stocks had reached highly speculative valuation levels that strained credulity. At the top of the S&P 500, Apple (AAPL) gained 80.8 percent over 2020 to close the year trading at an incredible 40.5 times trailing earnings. Microsoft (MSFT) climbed 41.0 percent over the year to close at 35.9 times trailing earnings. Amazon (AMZN) soared 76.3 percent to close at an extraordinary 93.1 times trailing earnings. Alphabet Inc/Google (GOOG) rose 30.9 percent, closing 2020 at 33.9 times trailing earnings, and Facebook (FB) shares increased 33.1 percent to close out the year at 31.1 times earnings. These five stocks alone make up almost 22% of the entire Index value. Without the massive returns on these five stocks, S&P500 Index returns in 2020 would have been cut by nearly half.

We believe the lofty gains the mega-cap tech mammoths have enjoyed in recent years will likely prove to be unsustainable. Covid has probably accelerated the equipment replacement cycle and driven technological usage trends that will certainly slow and perhaps even reverse as the economy reopens. As a result, these companies may fail to meet today's elevated expectations for the sustained earnings growth necessary for these firms to meet investor expectations. It is also worth considering that the size of these tech mega-caps are currently already so large relative to the size of the global economy that continued real growth at the rates necessary to justify current valuations will be quite difficult to achieve. Furthermore, when business growth is achieved, we suspect it will now increasingly be attained to the detriment of financial results at another one of these large companies. Moreover, with big-tech facing increasing political pressure both domestically and abroad for allegedly monopolistic and anti-competitive behavior, there is a risk that the opportunity for significant additional profit growth at these firms may be legislatively curtailed.

In what may well become a future poster-child for the market excesses of 2020, electric-car manufacturer Tesla managed to generate four consecutive quarters of positive earnings and was added to the S&P 500 Index, its largest-ever addition. Tesla debuted as the sixth largest position in the index, garnering about 1.8 percent of the hefty amount of total passive capital invested in the index. In what appears to us as a ponzi-like process, forced index-related passive buying and retail excitement helped propel Tesla's market capitalization above $800 billion, a capitalization level that is now amazingly reported to be higher than the combined remainder of the entire global auto industry. Astoundingly, this valuation is more than 1,000 times its relatively paltry trailing annual earnings of just $667 million (more than all of which was reportedly derived from the receipt of corporate welfare in the form of regulatory credits). While the corporate media today lauds every move of Elon Musk, it's not too hard to imagine a future where the media of tomorrow calls for government investigations as millions of bag-holding pensioners and other passive investors suffer losses on Tesla and

Figure 2: Commodities may be hitting a cyclical low relative to the S&P 500



Source: Bloomberg (Data from 4/11/1991 to 1/21/2021) other current index darlings. Unfortunately, this will likely be well after the "venture capitalists" have made their stealthy and profitable exits.

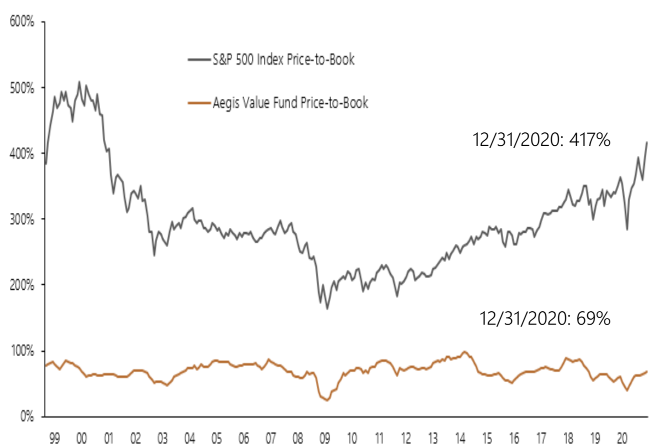
Overall, the businesses that comprised the S&P 500 generally failed to live up to the lofty earnings expectations analysts were touting at the start of the year, instead delivering earnings that are now figured to be lower than the previous year's expectations by nearly a third. Nevertheless, investors bid the S&P 500 up by over 18 percent, resulting in a valuation that has bubbled-up considerably. According to Goldman Sachs, today S&P 500 market multiples on a multitude of valuation measures are now in the top one or two percent of their historical range. The price of the S&P today is near 30 times trailing earnings, consistent with where valuations have historically been during market tops. These high current valuations are in stark contrast to an economy that looks highly levered, precariously pressured by Covid, and facing growing prospects for substantially increased taxes and regulation under a new administration. Should tax rates revert back to pre-2017 levels, we calculate the S&P's price to earnings multiple would be even three points higher. While the S&P 500 is propelled higher and higher today on waves of central bank money printing, tomorrow could be quite different. We suspect the passive index and ETF investors currently wedded to the S&P 500 are likely have a significantly different investment experience in the next five years than they had in the last five.

<u>While Conventional Markets Appear Fully Valued, the Companies that Aegis Holds Look Quite Attractive</u>

It is not easy to determine how to position capital in such a period where equities appear priced to perfection and bonds denominated in fiat currencies offer miniscule and even negative real yields to investors, failing to adequately compensate for the increasing future risk of substantial monetary inflation. Interestingly, inflation has remained dormant for quite some time, leaving many who have raised the alarm over the years looking far from prescient. However, we expect there will be a significant cost to the unprecedented economic shut-down mandated on the world as well as the gobs of free money so indiscriminately dispersed in 2020, with no end in sight. Given the scale of recent government sanctioned money printing, and its current primary use funding social transfer "stimulus" payments, the inflationary wolf could finally show. And when it does, we suspect the developed country central banks will generally be unable to take the politically difficult steps necessary to drain liquidity and preserve the value of the currency, particularly given that interest rate increases would unacceptably drive-up interest costs on $28 trillion of debt now owed by the U.S. Federal Government.

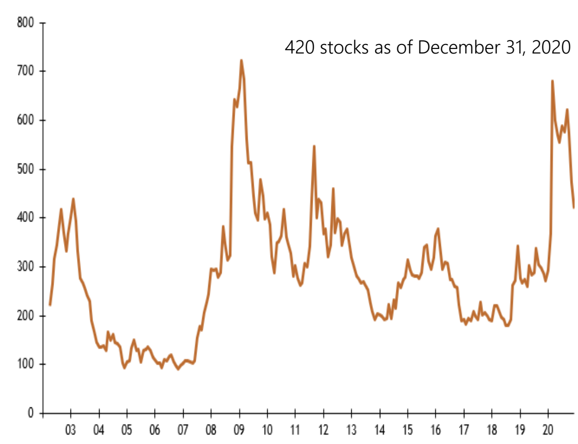
We believe the fundamentals-focused, research-intensive, deep-value investment strategy employed at Aegis is particularly well positioned today given the macroeconomic backdrop. Value stocks, and in particular smaller-cap value stocks had a very difficult 2020, despite the well-publicized rally in these shares in November. In 2020 overall, value stocks continued their record spate of underperformance vis-à-vis the growth stocks in a trend that has now lasted more than a decade. As we delineated in our mid-year letter, the valuation-multiple disparity between value and growth stocks reached new highs in 2020. Commodity related-stocks have similarly underperformed the broader markets, with the S&P GSCI Index today hovering near at least 30-year lows against the S&P 500, as seen in Figure 2. We are optimistic that a turn in commodities and value stocks generally could well be near at hand. Furthermore, given the long spate of value's underperformance, there has clearly been an exodus of investors and value-oriented analysts from the investment scene, which we believe is now leading to increasingly evident dislocations from time-to-time among particular

Figure 3: 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 12/31/2020)

Figure 4: 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 12/31/2020) deep value securities. Fortunately, these disparities can now be more profitably exploited by the remaining value-oriented analysts who still do fundamental due diligence work on investment prospects. The perfect example is precious metals equities. After declining by approximately 85 percent from 2011 to 2015, they continue to offer careful investment analysts opportunities for strong returns, with excellent potential to appreciate as fiat currencies begin to break down under the pressure of unrelenting government debasement.

Overall, as can be seen in Figure 3, the Fund's price-to-book ratio has climbed slightly to 69 percent. Despite the slight rise in recent months, this valuation is at a level just one-sixth that of the S&P 500 and is now at one of the widest discounts to the broad market in the last 20 years. We continue to work diligently to identify and purchase good investments in what is a very fully-valued broader market. As can be seen in Figure 4, given the unusually high valuation dispersion in the markets today, we are fortunate that there continues to remain a significantly higher than average number of discount-to-book stocks on our watchlist from which to choose. Despite the market's apparent overvaluation, we believe our particular portfolio offers a risk/reward profile among the most optimal in the market today. Employees and our families currently own in excess of $30 million of Fund shares. We continue to monitor our portfolio and markets carefully for emerging risks and opportunities. Should you have any questions, our shareholder services reps are available at (800) 528-3780. You are also welcome to call me personally any time at (571) 250-0051. We wish you and your families all the best in 2021.

Sincerely,

Scott L. Barbee

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 Amerigo Resources Ltd., Minera Alamos Inc., Resolute Forest Products Inc., Equinox Gold Corp., Kenmare Resources, Interfor Corp., Mercer International Inc., Dundee Precious Metals Inc., Geodrill Ltd., and Roxgold Inc. As of December 31, 2020, the stocks represent 8.7%, 8.2%, 7.2%, 7.1%, 6.8%, 5.4%, 4.1%, 4.0%, 3.9%, and 3.9%, 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.

Morningstar Rankings represent a fund's total-return percentile rank relative to all funds that have the same Morningstar Category. The highest percentile rank is 1 and the lowest is 100. It is based on Morningstar total return, which includes both income and capital gains or losses and is not adjusted for sales charges or redemption fees.

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. Cash Flow: A revenue or expense stream that changes a cash account over a given period. 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. Market capitalization: The total dollar market value of a company's outstanding shares. WTI: West Texas Intermediate is a grade of crude oil used as a benchmark in oil pricing. EBITDA: Earnings before interest, taxes, depreciation and amortization expenses. The S&P SmallCap 600 Pure Value Index: An index maintained and selected by the S&P Index Committee. It contains companies with market caps in the range of US$ 300 million up to US$1.4 billion and with public floats of at least 50% and with strong value characteristics. Price-to-Sales: a valuation ratio that compares a company's stock price to its revenues. It is an indicator of the value placed on each dollar of a company's sales or revenues. Forward price to earnings (forward P/E): a measure of the price-to-earnings (P/E) ratio using forecasted earnings for the P/E calculation. OPEC: The Organization of Petroleum Exporting Countries is a group consisting of 12 of the world's major oil-exporting nations.

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

An investment cannot be made directly in an index.

Earnings growth is not representative of the Fund's future performance.

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

References to other investment products should not be interpreted as an offer of these securities.

Quasar Distributors, LLC is the distributor for the Aegis Value Fund.