AEGIS Value Fund

AEGIS FUNDS

Portfolio Manager's Letter
1st Half Ended June 30, 2022

July 25, 2022

Table 1: Performance of the Aegis Value Fund as of June 30, 2022

		Annualized				
	Six Month	One Year	Three Year	Five Year	Ten Year	Since Inception
Aegis Value Fund (AVALX)	-0.34%	1.83%	21.98%	15.59%	11.61%	10.73%
S&P Sm. Cap 600 Pure Value Index ^	-12.69%	-10.83%	11.44%	6.21%	9.64%	N/A
S&P 500 Index	-19.96%	-10.62%	10.60%	11.31%	12.96%	7.20%
Morningstar Percentile Ranking *		1	1	1	5	
Funds in Small Value Category		445	428	413	383	

** 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 1.48% 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 4/30/2023.*

Dear Aegis Investors:

The Aegis Value Fund delivered first half 2022 returns that were down fractionally, dropping just 0.34 percent and significantly outperforming the equity markets, which suffered broad declines. The Fund's primary benchmark, the S&P 600 Pure Value Index, fell by 12.69 percent. We are pleased to report that the Aegis Value Fund's historic returns as of June 30th placed the Fund in the top performance percentile of Morningstar's small-cap value universe for the trailing one, three and five years.

The first half of 2022 presented an unusually challenging time for investors. The broad-based S&P 500 Index plunged 19.96 percent, reportedly the worst first-half performance for the S&P 500 in more than 50 years as global markets struggled to maintain footing amidst an onslaught of new economic dynamics and geopolitical events. Inflation surged higher in the first six months, as the hangover after an extraordinary monetary stimulus which saw the broader "M2" money supply increase by 40 percent over the previous 30 months began to take hold. The inflationary backdrop was compounded by a global supply shock as war in Ukraine precipitated a sanctions regime that strained supply chains already struggling to emerge from Covid lockdowns. Restrictions on Russian energy imports in particular ignited global energy supply fears following a multi-year period of underinvestment in fossil fuels. With energy demand strongly recovering as global travel activity surged post-Covid, crude oil soared, with Brent crude climbing by a massive 47.6 percent in the first half. Natural gas pricing also swelled higher, particularly in Europe.

By May, with the monetary stimulus of previous years taking hold and energy prices soaring, the Consumer Price Index roared higher, climbing 1.0 percent month-over-month in May, and 8.6 percent year-over-year, the highest rate of climb in more than 40 years. With the Federal Reserve having initially appearing reluctant to confront emerging inflationary pressures, suggesting instead that inflation was "transitory," bond markets plunged in value as yields soared to incorporate inflationary expectations. Yields on the 10-year Treasury climbed by 150 basis points in 2022's first half as yields on 30-year mortgages soared further, even exceeding 6 percent at a point in early June, nearly double the mortgage rate at the close of 2021. There was little place for an investor to hide, as bondholders were also squeezed, with the ICE Bank of America US Corporate Bond Index of investment grade rated corporate debt losing 14.03 percent in the first six months while the Bloomberg High Yield Very Liquid Bond Index declined 14.8 percent.

With inflationary expectations rapidly becoming entrenched in the economy, the Fed eventually shifted to a more hawkish policy stance, hiking interest rates 50 basis points in May and 75 basis points in June following a 25 basis point increase in March. The Fed also began the ramp-up of a quantitative tightening of its balance sheet in June by allowing $30 billion in Treasuries and $17.5 billion in mortgage-backed securities to mature and roll-off its balance sheet. With the Federal Reserve hiking rates late in the first half, the dollar began to soar higher, with the US Dollar Index climbing an astounding seven percent in just the second quarter of 2022. As financial conditions tightened worldwide amid dollar strengthening, markets were also roiled by widespread zero-Covid lockdowns in Shanghai, putting substantial additional downward pressure on some commodity prices.

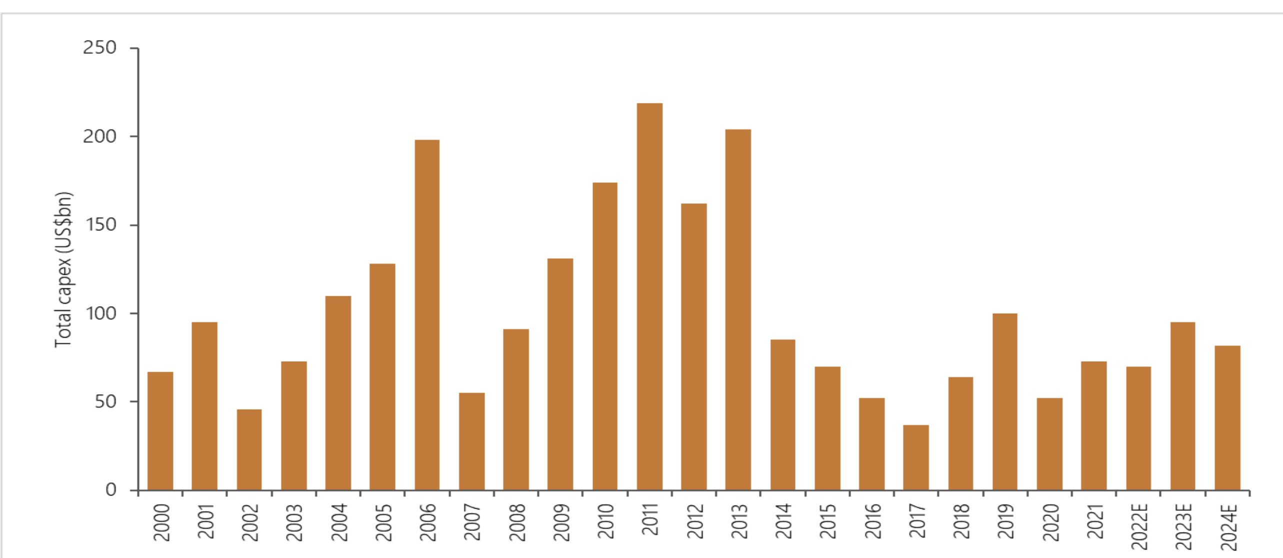
The Aegis Value Fund's Allocation to Energy Stocks Bolstered Performance

The Fund was well positioned for the upward burst in energy prices in the first half of the year, with energy sector holdings comprising nearly a quarter of the Fund's portfolio. These holdings performed extraordinarily well in the first half, adding approximately 12 percentage points to overall Fund performance as energy prices soared. The holding most strongly contributing to first half Fund performance, adding an estimated 2.85 percent to Fund returns was **International Petroleum Corp. (IPCO-TO)**, a global oil & gas exploration and production company with significant resources in Canada. Formed by the well-respected Swedish commodity investment house, the Lundin Group, International Petroleum management has a well-earned reputation for excellent capital allocation. After the company's 70 percent rise in the first half of the year, the company sports a market capitalization of approximately $1.4 billion and at the end of Q1 had $42 million of debt net of cash. Even after the rise in value, at $100 WTI (West Texas Intermediate) oil prices, management has estimated the company should generate free cash flow of $460-480 million this year, a 35 percent free cash flow yield on current valuation. Furthermore, should oil prices remain at $100, the company expects to generate in excess of $1.8 billion in free cash flow over the next 5 years, an amount more than sufficient to cover its entire market capitalization while producing oil representing just one-third of its long, 15-year reserve life. In addition to the company's 270 million reserve barrels comprising this 15-year life, International Petroleum has another 1.3 billion barrels of contingent reserves associated with its "Blackrod" project in Alberta. The Blackrod project, which has obtained the required regulatory approvals to move forward, is estimated to breakeven at $50 WTI and is highly economic at today's oil prices. While the company continues to explore the advancement of Blackrod, it has recently been using a substantial portion of its free cash flow to repurchase its own shares, buying back in excess of 5 percent of its shares outstanding so far this year. We continue to maintain our investment, which remains a top-3 holding of the Fund. At mid-year, the Fund's position in International Petroleum comprised 5.9 percent of Fund assets.

Energy Stocks Today Appear Well Set-up for Strong Returns

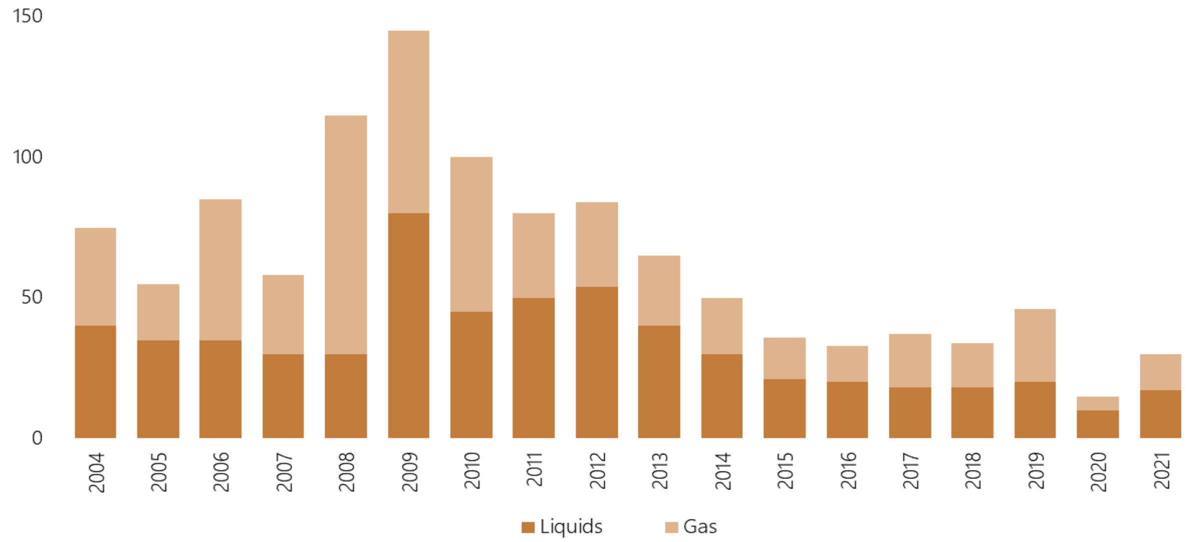
We continue to remain constructive on the prospects for fossil fuel-related investments, as we think the industry is today unusually well set-up for gains. As can be seen in Figures 1 and 2, oil & gas exploration & production capital spending has been anemic for a number of years now as the industry retrenched after oil prices descended from their highs of 2012-2014, leaving many energy-related capital projects suffering from disappointing returns. With companies in the sector over-extended from too much leverage incurred during the previous run-up, energy companies have been big underperformers in recent years with the oil & gas industry reportedly ranking last among all sectors of the S&P 500 in five of the last seven years. With nearly 800 exploration & production, oilfield services, and midstream oil and gas companies having filed for bankruptcy over the last 15 years, according to Haynes & Boone, investor sentiment for the industry has been among the worst we've encountered. Most conventional investors, often burned by losses, have moved on to seemingly more pleasant pastures. This fossil fuel divestment trend has been bolstered by the political zeitgeist that began to strongly favor capital redirection into more risky, expensive, and complex renewable energy solu-

Figure 1: Oil & Gas Exploration and Production Capital Spending



Source: Goldman Sachs Global Investment Research

Figure 2: Final Investment Decisions (Resources by Approval Year, billions of Boe)



Source: Rystad Energy and Raymond James

tions, many of which sported tax-fertilized valuations that were growing like wildfire. Furthermore, we understand banks, often operating under prejudiced partisan regulatory pressure, had begun to avoid lending into the legacy energy sector, exiting credit lines in favor of loans to renewable energy projects, placing additional strain on the traditional fossil fuel industry. Covid lockdown-related global energy demand declines in 2020 only served to intensify the negative sentiment, reportedly causing the industry to report an additional $145 billion of reserve write-downs. Surviving legacy energy sector companies responded by prioritizing survival: emphasizing consolidation, restructuring and debt repayment over capital spending and growth as they struggled to complete many long-lead energy capital projects with high sunk costs. Few new long-lead energy megaprojects to bring on lasting new supply were sanctioned.

As 2022 began, even before the Russian invasion of Ukraine called into question the future and shape of Russia's energy supply to the west, excess supply had already tightened. Demand for energy was accelerating as the world continued to emerge from lockdowns, spurred on by immense amounts of fiscal and monetary stimulus. Despite the recoveries in the equities, stock gains have so far trailed the surge in the commodities. As a result, despite nice gains year-to-date, many oil & gas exploration and production companies today continue to trade at unusually low valuation levels relative to current cash flow. With investors apparently still reluctant to re-enter the legacy fossil fuels space, many energy companies, having already substantially reduced or eliminated debt and yet still sporting depressed equity valuations, have been engaging in self-help, using the capital generated to repurchase shares or allocate cash towards shareholder returns through dividends. Risky capital expenditures to increase supply have remained limited.

While short cycle investment in the shale sector is now climbing, the slow pace of increase in rig-activity suggests the response of the US shale industry, a component of supply so critical to accommodating historical demand growth, will likely prove insufficient to meet the most recent global demand surge, much less replace any potential decline in Russian barrels. Furthermore, US shale production has recently been relying heavily on the completions of previously drilled but uncompleted "DUC" wells. However, with DUCs reportedly now down a massive 51 percent from mid-2020, the probability of continued easy production additions in the shale patch appears to be diminishing.

Finally, with new high-dollar, long-cycle investment projects taking years to bring on-line, and historically little new supply in the long-cycle pipeline, governments appear to be looking to OPEC for additional supply. However, with many countries in OPEC already substantially underproducing their quotas, analysts have suggested there is little excess OPEC capacity readily available. OPEC members have typically outproduced their quotas when prices were high. Moreover, widespread zero-Covid Shanghai lockdowns have been suppressing energy demand in recent weeks by as much as two million barrels per day, according to Raymond James. As a result, should Chinese Covid restrictions ease, the oil market could see aggregate oil demand of approximately 100 million barrels per day rapidly increase by two percent. Furthermore, the administration's massive program to sell off oil from the U.S. Strategic Petroleum Reserve has temporarily increased supply by one million barrels per day. With this supply scheduled to terminate in late October shortly before U.S. election day, the tables seem well set for robust energy pricing. We are optimistic over the prospects of strong near-term performance of the Fund's energy sector equities, which at mid-year comprised approximately 30 percent of Fund assets.

Lumber Paper & Forest Products holdings suffered as Interest Rates Rose and Lumber Prices Declined

Outside of energy, the Fund continued to be heavily invested in the lumber, paper and forest products sector, which comprised approximately 20 percent of Fund assets at the start of the year. Lumber declined by 42 percent in the first half of 2022, as transportation bottlenecks out of Western Canada that helped spur a resurgence in lumber pricing in late 2021 were gradually alleviated. By mid-year, lumber pricing was also heavily affected by investor worries that higher mortgage rates would suppress recently robust new-home demand. Mortgage investors, skittish over signs of accelerating inflation and Federal Reserve inaction, sent the 30-year fixed-rate mortgage soaring from an average 3.11 percent at the start of the year to 5.70 percent by mid-year. While the Federal Reserve's more aggressive recent posture appears to have put a halt to the recent backup in mortgage rates, the housing industry fallout may have just begun, with home prices, up almost 40 percent since the start of the pandemic according Case Shiller, now appearing vulnerable.

The Fund holding most negatively impacting performance in the first half of 2022 was Interfor Corporation. Declines in Interfor, the fourth largest North American lumber producer, reduced first-half Fund performance by an estimated 2.29 percentage points as lumber prices returned to earth after soaring higher in 2021.

Higher interest rates were likely the culprit, throwing a wet blanket on near-term home price appreciation, as sellers were forced to adjust home prices lower to compensate for higher mortgage rates. Levels of new home construction also appeared to descend from recent highs. However, we suspect much of the negative upstream impacts of recent higher yields on construction and lumber consumption may have already been largely factored into the lumber market. Lumber prices have already declined 60% from the all-time high last summer to levels closer to $600. Yet even at these lower lumber prices, we estimate Interfor could generate approximately $425 million of EBITDA, resulting in 3.5x EBITDA multiple when considering the company's $1.2 billion market cap and mere $300 million of net debt. While shares declined 37 percent over the first half of 2022, we estimate the company generated an extraordinary $655 million of pre-tax earnings, which in our view has significantly de-risked the position.

Despite the Declines, We Still Believe Opportunity Exists in Lumber

Furthermore, we see constructive lumber industry dynamics in the longer-term. Unlike the 2005 period where lumber industry supply grew as demand for lumber increased, the past few years saw the industry remain quite disciplined, keeping supply essentially flat despite elevated lumber prices – and instead, opting for share buybacks and special dividends to return the cash to shareholders. Additionally, fundamental changes in the North American lumber industry over the past decade has resulted in a higher cost of production for a number of marginal producers in Western British Columbia, which should translate to additional future supply curtailments and plant closures that are likely to bolster lumber prices.

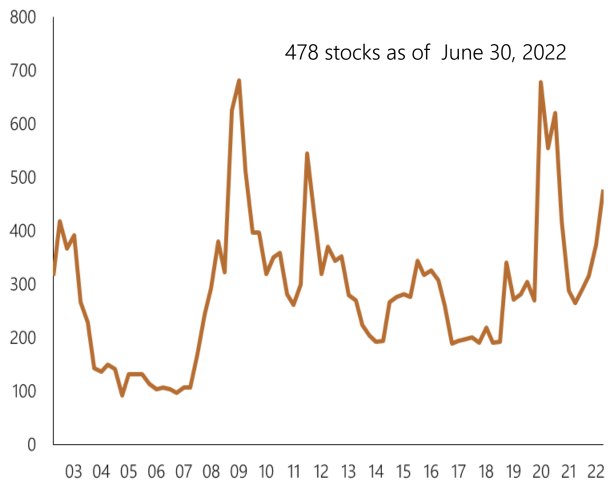
From the lumber demand side, we are more sanguine on the outlook for new housing starts, in spite of the higher rates. Despite the large home price appreciation, home starts have recently been moderate, with actual home starts for May (most recent month) only 8% above the 60-year average, following years of below-trend housing starts since the Global Financial Crisis in 2008. Demographics should also be supportive of new housing starts as the number of Americans in their peak household-formation years of age of 35-44 is climbing, with good evidence this cohort is now warming up to the idea of home ownership, albeit a few years later than prior generations. Finally, we believe the pandemic has made a permanent change in the number of people who work from home part-time or full-time, improving per-capita housing square footage demand. Even if higher mortgage rates do impact new housing demand, the outlook for increased home repair and remodeling, a significant component of lumber demand, could be far more robust, as homeowners now locked-in to low mortgage rates choose to undertake lumber-intensive home improvement projects in lieu of purchase. At mid-year, Interfor represented 4.33 percent of Fund assets.

Apart from Interfor we continue to hold several additional forest products companies with exposure to lumber, including **Conifex (CFF.TO)**, **Mercer (MERC)**, **Resolute (RFP)** and the Fund's largest first half purchase, **West Fraser (WFG)**. While we have owned several publicly traded companies with sawmill assets for some time now, believing them to be undervalued, it appears industry and private market participants may now be coming around to a similar view. In the last few weeks since mid-year, Paper Excellence agreed to purchase Resolute Forest Products in a deal that represented at least a 64 percent acquisition premium. Additionally, CVC Capital and Kronospan have also reportedly expressed interest in making a bid to acquire West Fraser at an undisclosed price. Both events look like they have the potential to nicely bolster second half Fund performance.

Gold Mining Equities Have Been Disappointing Fund Performers in 2022

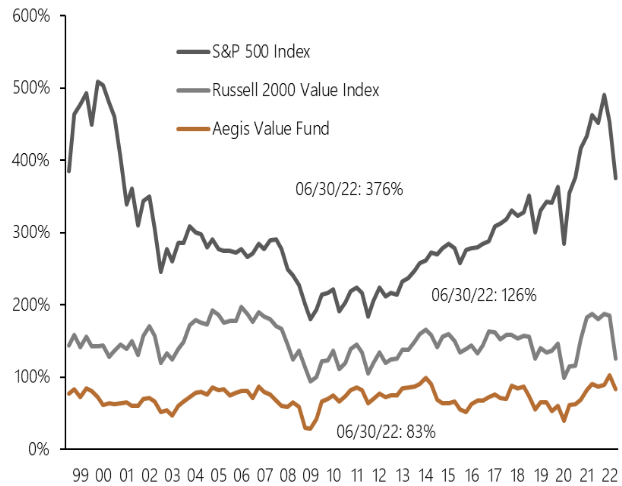
Perhaps the area of Fund concentration that has been most disappointing during the first half has been the Fund's Precious Metals and Mining investments. While gold declined a fractional 1.32 percent over the first half, the precious Metals miners were inexplicably bludgeoned, with the MVIS Junior Gold Miner's Index declining by 23.03 percent. Performance of the Fund's numerous precious metals positions, representing just under 25 percent of Fund assets at the start of the quarter, impacted first half performance by an estimated 3.99 percentage points. Particularly adversely af-

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 06/30/2022)

Figure 4: Aegis Value Fund, Russell 2000 Value and S&P 500 Index Historical Price-to-Book Ratio



Source: Aegis Financial Corp and Bloomberg (Data from 9/30/1998 to 06/30/2022)

fecting Fund returns were its positions in **Argonaut Gold(ARG.TO)** and **IAMGOLD(IAG)**, which both continued to experience serious declines as each faced a continuing spate of disappointing construction cost overruns on large Canadian mine construction projects. In the case of Argonaut, which was alone responsible for about a quarter of the Fund's first-half precious metal mining losses, a large and highly dilutive capital raise was executed just before mid-year to ensure sufficient capital to complete construction, given the substantial cost revisions. While we continue to hold shares of Argonaut, which at mid-year comprised about 0.27 percent of Fund assets, and believe there is opportunity for Argonaut to recover to some extent, there is no doubt we have unfortunately incurred a degree of permanent capital loss in the position.

Despite our recent issues with Argonaut and IAMGOLD, we believe that the vast majority of our precious metals holdings remain quite well positioned for outstanding future gains based in today's gold pricing environment, particularly after the dramatic underperformance of gold mining equities compared to gold itself in the first half. We also believe that the mining sector is well positioned to surge should the Federal Reserve begin to soften its currently more hawkish stance, a move that we figure has the potential to send gold prices significantly higher. At current levels, gold is strangely only 4 percent higher than it was pre-Covid despite the money supply being up by nearly 40 percent. Some catching-up for precious metals and the equities may be in the cards.

<u>A More Active Fed Has Reignited Recession Worries, But Many Fund Holdings Today Look Already Priced For a Downturn</u>

As we sit today, the broad markets have declined significantly. The Federal Reserve, after much criticism for a slow start, is now hawkishly pushing rates higher to combat inflation. Many investors and financial commentators have raised prospects of Fed rate-hikes bringing on a serious recession. As a result of recession fear, commodities and energy stocks, viewed as economically sensitive, were clobbered in June, as investors began to price in recession. While some economic indicators are clearly indicating the potential for a slowdown, we suspect that calls for serious recession may prove to be premature. Employment data remains strong with the US Department of Labor's job openings and labor turnover survey (JOLTS) showing 11.3 million job openings at the end of May. Consumers also appear to be in great financial shape, with reportedly $2.6 trillion in excess savings, a function of remaining savings from Covid-related fiscal stimulus transfer payments and below-trend personal consumption during the pandemic. The banking system also has significant additional lending capacity, with loans reportedly representing only 63 percent of deposits, well down from 90 percent plus in 2007 and near a 40-year low. Household balance sheets appear to be in great shape, with historically low leverage levels relative to household assets or disposable income. Banks are also clearly in significantly better shape, with much higher equity cushions, and hold more carefully underwritten loans than they held in 2007.

Given the significant drop already recently experienced in many commodity prices, not to mention the drop in our Fund's materials and energy stocks, we believe a slowdown may have already been more than priced into these equities by fearful investors. We think many conventional investors may now be looking to recent past downturn analogs that may not prove reliably predictive with respect to future performance of these stocks. In particular, we believe many of our commodity related holdings, especially those in energy are being sold out without a sufficiently robust understanding of how under-leveraged these names are today, often in stark contrast to previous commodity downturns. As a result, many of our positions currently have fortress balance sheets and trade at unusually low multiples of free cash flow based on current commodity prices that have already been pegged lower. Should a far steeper recession fail to materialize in the near future, these holdings are likely to even further deleverage, put substantial cash on their balance sheets, and increase dividends and share buybacks. Shareholder returns under this scenario could be quite strong.

We Continue to Keep an Eye Out for New Opportunities Created by Market Dislocations

Broader market declines and fear of recession certainly do appear to be creating significant market dislocations. As can be seen in Figure 3, at mid-year, the number of stocks on the watchlist trading under tangible book value has been climbing since mid-2021, with the opportunity set of investment candidates materially larger only during the Global Financial Crisis in 2008/2009 and the Covid pandemic in 2020. Within the watchlist, while energy and materials stocks dominated the list in recent years, we are now observing the presence of companies in a broader diversity of industries. We continue to work diligently to find and invest in companies we judge to be among the most undervalued in the market today. As can be seen in Figure 4, stocks in the Fund trade at just a quarter of the valuation on a price-to-book basis compared to the broader market. We think there continues to be great opportunity for appreciation in the portfolio. Employees and their families hold in excess of $40 million in Fund shares. We continue to monitor the portfolio and the investment landscape 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 any time at (571) 250-0051.

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., International Petroleum Corp., MEG Energy Corp., Kenmare Resources, Resolute Forest Products Inc., Minera Alamos Inc., Hallador Energy Company, Interfor Corp., West Fraser Timber Co. Ltd., and Capital Limited. As of June 30, 2022, the stocks represent 6.5%, 5.9%, 5.4%, 5.2%, 4.6%, 4.5%, 4.5%, 4.3%, 4.2%, and 3.5%, 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. WTI: West Texas Intermediate is a grade of crude oil used as a benchmark in oil pricing. 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. S&P CoreLogic Case-Shiller National Home Price Index: measures the changes in the sale prices of single-family homes across the U.S. It does this by tracking the purchase prices and resale prices of homes that have undergone a minimum of two arm's–length transactions. Consumer Price Index: A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living. M2: is a broader classification of money than M1. Economists use M2 when looking to quantify the amount of money in circulation and trying to explain different economic monetary conditions. EBITDA: Earnings before interest, taxes, depreciation and amortization expenses. Quantitative Easing (QE): is a form of unconventional monetary policy in which a central bank purchases longer-term securities from the open market in order to increase the money supply and encourage lending and investment. ICE Bank Of America US Corporate Bond Index measures market performance of USD-denominated investment grade corporate debt publicly issued in the U.S. domestic market with a remaining term to final maturity between 5 and 10 years. Bloomberg Barclays US High Yield Very Liquid Index is a component of the US Corporate High Yield Index that is designed to track a more liquid component of the USD-denominated, high yield, fixed-rate corporate bond market. **U.S. dollar Index** is a measure of the value of the U.S. dollar relative to a basket of foreign currencies. **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. **OPEC**: The Organization of Petroleum Exporting Countries is a group consisting of 12 of the world's major oil-exporting nations. **Brent Crude:** may refer to any or all of the components of the Brent Complex, a physically and financially traded oil market based around the North Sea of Northwest Europe. **Basis Point:** One 100th of one percent.