AEGIS **Value Fund**

Portfolio Manager's Letter
Quarter Ended March 31, 2012

April 20, 2012

Dear Aegis Investor:

The Aegis Value Fund gained 10.38 percent during the first quarter of 2012, slightly underperforming its primary small-cap benchmark, the Russell 2000 Value Index, which returned 11.59 percent. Past performance data for the Aegis Value Fund and its Russell 2000 Value benchmark are presented in **Table 1** below:

Table 1: Performance of the Aegis Value Fund as of March 31, 2012

			Annualized				
	Three Month	Year-to-Date	One Year	Three Year	Five Year	Ten Year	Since Inception*
Aegis Value Fund	10.38%	10.38%	-3.56%	45.76%	1.79%	7.98%	10.47%
Russell 2000 Value Index	11.59%	11.59%	-1.07%	25.36%	0.01%	6.59%	6.81%

** Aegis Value Fund Inception 5/15/98*

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 expense ratio of 1.48%.

Large-cap stocks generated better returns than small-caps, with the S&P 500 Index delivering its best quarterly return since 1998 at 12.59 percent. The large-cap, tech-heavy Nasdaq 100 Index outdid the other indices, turning in a blistering 20.96 percent quarterly gain. The strong index weighting of Apple Computer, whose shares rose more than 50 percent during the quarter, was responsible for much of the unusual quarterly performance of the Nasdaq 100. At quarter end, Apple Computer actually represented a massive 20.5 percent weighting within the Nasdaq 100 index.

Share prices climbed as fears of a disorderly Eurozone banking collapse subsided and the US economy looked to be regaining its footing. January non-farm payrolls showed the fastest pace of employment growth in 9 months as unemployment fell to a 3-year low of 8.3 percent. Industrial production, durable goods orders, and car sales all continued to show signs of improvement, and companies in the S&P 500 reported record profits. Technology stocks and Financial Services stocks outperformed in the quarter, with Lipper reporting funds within these sectors up 20.26 percent and 17.56 percent respectively.

Fears of a Chinese economic downturn weighed on commodities stocks in the quarter, with Lipper reporting funds investing in the various commodity sectors dropping roughly one to two percent. Uncharacteristically, the lackluster performance of commodity-driven stocks occurred while the underlying commodities themselves generally experienced nice price gains with crude oil up 4.2 percent, gold increasing 6.7 percent and copper gaining 11.3 percent in the first three months of the year. Despite the problematic performance for commodity-driven stocks in the quarter, the Fund's significant holdings of companies involved in oil exploration and production, oil service, and copper production performed well.

One notable exception to the generally upward trend in commodity prices during the quarter was the 29.5 percent plunge in the price of natural gas. Heating demand for natural gas plummeted as the United States experienced the warmest first quarter on record going back to 1895, according to the National Oceanic and Atmospheric Association, with temperatures in the first quarter 6 degrees above the 20^{th} century average. The warm winter left about 2.5 trillion cubic feet of gas in storage at the end of March, nearly a trillion cubic feet more inventory than typical winter-end storage levels. While the unusually warm winter caused a demand shock that will likely prove temporary, the drop-off in demand occurred in the context of significant recent increases in natural gas production as energy companies worked to take advantage of improved shale gas extraction technology. Today's 73 billion cubic feet per day of domestic gas production in the lower 48 states is up 34 percent over the last 6 years.

With gas storage running well above historical winter-end levels and with production showing no signs of slowing, it appears that domestic gas storage, estimated at just over 4 trillion cubic feet, will be maxed out for the first time in history this summer. Gas production has not fallen off, even though the number of drilling rigs directed to dry gas development has declined from a recent high of 988 rigs in the third quarter of 2010 to 590 (per Smith Bits) in recent days. One reason is that new gas production, typically a byproduct of the large number of domestic wells now being drilled targeting oil, is presently offsetting production declines from dry gas fields. Absent Federal government well-completion restrictions, we do not envision natural gas supply/demand fundamentals improving in the near-term and believe low gas prices may persist for some time.

The Fund was indirectly impacted by the first quarter drop in natural gas prices as electric power producers have looked to switch from coal to cheap natural gas generation whenever possible. Our modest Fund holding in **Patriot Coal (PCX: $6.21)** dropped 26.3 percent over the quarter as a decline in domestic demand for thermal coal used in power generation compounded pricing weakness recently seen in the market for Patriot's metallurgical coal. The Fund also was negatively impacted as shares in independent power producer **Genon Energy (GEN: $1.95)** declined 20.3 percent as market sentiment regarding Genon's coal generation assets deteriorated. Declines in Patriot Coal and Genon Energy were among the worst Fund performers in the first quarter, negatively impacting Fund returns by approximately 0.43 percent and 0.27 percent respectively.

Despite the poor near-term fundamental outlook for natural gas, we believe that prices will eventually recover. Winter next year is likely to be significantly cooler than this year, resulting in a rebound in heating demand. Also, considering that natural gas is now priced at an almost 90 percent discount to oil on an energy equivalent basis, additional demand is likely to shift from other energy sources to natural gas over time, driving price recovery. With this thought in mind, one of the Fund's largest recent purchases has been its investment in **Patterson-UTI Energy (PTEN: $15.93)**, which has dropped in price lately on concern that a current glut in natural gas will result in a sustained downturn in demand for land drilling. Patterson-UTI now trades at levels close to tangible book value. The $2.5 billion market-cap company, active in land drilling and pressure pumping, has significantly upgraded its fleet, spending a massive $2.4 billion on new capital equipment and acquisitions over the last three years. Currently 91 of Patterson-UTI's 330 marketable land rigs are new generation Apex rigs specifically designed to accommodate the manufacturing-like process of shale-drilling. With net debt of only $0.5 billion, the nearly $3 billion value on the enterprise is quite modest given that Patterson-UTI generated approximately $1 billion in EBITDA last year. While gas drilling has declined, Patterson-UTI has a material portion of its fleet on long-term contract. Furthermore, with the oil rig count increasing to a 25 year high, Patterson-UTI has been successfully redeploying gas rigs coming off contract into plays with oil-based demand. We also like the fact that the company has shown a willingness to return capital to shareholders, having spent approximately $800 million on buybacks and dividends from 2006 to 2008.

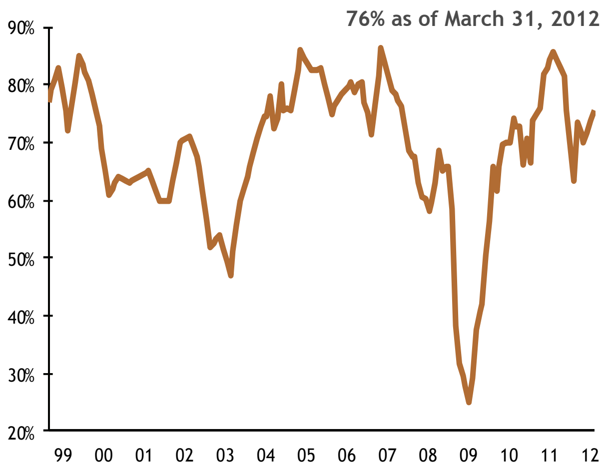
The Fund sold down positions in **GulfMark Offshore (GLF: $47.09)**, **Hornbeck Offshore (HOS: $40.84)** and **Ensco (ESV: $52.95)** over the quarter. We had built stakes in these Gulf-of-Mexico related oil service companies as valuations came under pressure two years ago when investor sentiment plunged following the BP oil spill and the resulting government-imposed drilling moratorium. Today, the Gulf has reopened, and Iran's oil exports now appear to be the most recent target for US Government intervention. As a result, investor attitudes towards the offshore drilling business are much more positive, and prices on these offshore oil service holdings have climbed significantly in recent months. Given the much higher valuations, and also our additional exposure to energy through Patterson-UTI, we thought it prudent to reduce these stakes.

Alliance One (AOI: $3.45), our Fund's largest holding, increased 38.6 percent in the quarter. The investment outlook for the global tobacco leaf processor improved as management implemented significant reductions in the company's cost structure which are now beginning to run through the company's financial results. The increase in Alliance One shares had the most positive impact on Fund performance, improving first quarter Fund returns by 2.03 percentage points.

At quarter-end, as can be seen in **Figure 1**, stocks in the Aegis Value Fund traded at a weighted average 75.7 percent of book value, up from 70.1 percent of equity book value at the start of the year. These Fund valuation levels are approximately one-third of those of the large-cap S&P 500 Index, which trades at 2.3 times book. With the S&P 500 Index currently near 1250, the price-to-earnings multiple of the index is roughly 12 times this year's consensus aggregate weighted index earnings per share of about $105. At first glance, 12 times earnings appears to be a fairly attractive valuation for industry leading blue-chip companies with global business profiles. Historically, the S&P 500 has traded, on average, at about 15 times trailing twelve months earnings. However, considering price-to-earnings ratios alone can be deceptive. It is important to keep in mind that this earnings multiple is

Figure 1:

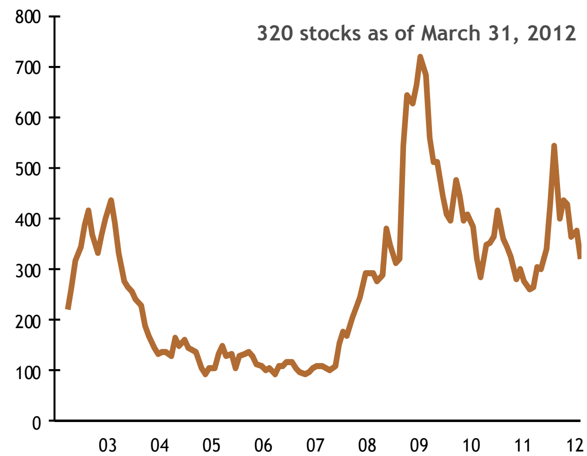
Aegis Value Fund Historical Price-to-Book Ratio



Source: Aegis Financial Corp.

Figure 2:

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.

based off of earnings that imply a weighted aggregate return on equity of roughly 20 percent, given the S&P 500's weighted aggregate index equity book value of approximately $550. Historically, very few companies have been able to maintain high return on equity levels for a sustained period. Unless the S&P 500, on average, is filled with future Berkshire Hathaways, we think today's S&P 500 return-on-equity levels driven by abnormally high profit margins are likely unsustainable. Fortunately, given their cheaper valuations, we believe stocks in the Aegis Value Fund require much lower and thereby generally more sustainable levels of return-on-equity to drive acceptable investment performance.

Overall, we continue to hold a diversified set of investments that we believe are valued among the cheapest in the market today. As can be seen in **Figure 2**, despite the number of stocks on our watchlist declining somewhat in recent months, there continues to be a sufficiently elevated number of watchlist stocks to enable us to find a full portfolio of investments with what we believe are excellent risk/return characteristics. Aegis employees continue to have in excess of $10 million co-invested in the Fund. Please know we continue to take great care to monitor the portfolio for developing risks. Should you have any questions, our shareholder services reps are available at (800) 528-3780. You are also welcome to call me personally at (571) 250-0051.

Best regards,

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 prospectus 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 companies involve additional risks such as limited liquidity and greater volatility. Value stocks may fall out of favor with investors and underperform growth stocks during given periods.

Diversification does not assure a profit or protect against a loss in a declining market.

An investment cannot be made directly in an index.

The letter refers to seven issues held by the Fund: Patriot Coal Corp., Genon Energy Inc., Patterson-UTI Energy Inc., GulfMark Offshore Inc., Hornbeck Offshore Services Inc., Ensco PLC, and Alliance One International. As of March 31, 2012, these stocks represent 1.1%, 1.0%, 0.8%, 0.0%, 1.8%, 0.4%, and 6.7% 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. **Price to Tangible Book:** A valuation ratio expressing the price of a security compared to its hard, or tangible, book value as reported in the company's balance sheet. The tangible book value number is equal to the company's total book value less the value of any intangible assets. **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:** A market-capitalization weighted equity index maintained by the Russell Investment Group and based on the Russell 2000 Index, which measures how U.S. stocks in the equity value segment perform. **Book Value:** A company's common stock equity as it appears on a balance sheet. **Return on equity:** The amount of net income returned as a percentage of shareholders equity. **Price-to-Earnings:** A valuation ratio of a company's current share price compared to its per-share earnings. **Nasdaq 100 Index:** An index composed of the 100 largest, most actively traded U.S companies listed on the Nasdaq stock exchange. This index includes companies from a broad range of industries with the exception of those that operate in the financial industry, such as banks and investment companies.

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

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