AEGIS **Value Fund**

AEGIS FUNDS

Portfolio Manager's Letter
Quarter Ended March 31, 2013

April 29, 2013

Dear Aegis Investor:

The Aegis Value Fund returned 16.84 percent for the first quarter of 2013, significantly outpacing the 11.63 percent quarterly gain of its primary small-cap value benchmark, the Russell 2000 Value Index. Past performance data for the Aegis Value Fund and the Russell 2000 Value Index are shown in **Table 1** below:

Table 1: Performance of the Aegis Value Fund as of March 31, 2013

			Annualized				
	Three Month	Year-to-Date	One Year	Three Year	Five Year	Ten Year	Since Inception*
Aegis Value Fund	16.84%	16.84%	32.47%	17.34%	11.56%	12.15%	11.82%
Russell 2000 Value Index	11.63%	11.63%	18.09%	12.12%	7.29%	11.29%	7.54%

** 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 1.47%.

Broad equity performance was unusually strong, with the S&P 500 index surging a robust 10.61 percent in the quarter as enticing market gains drew investors off the sidelines on relief that Congress had permanently extended a large portion of the Bush tax cuts. Lipper reported investors withdrew nearly $100 billion from money market funds in the quarter. US diversified equity funds appeared to finally be a destination of choice with $22 billion of investor inflow, the highest inflow since the second quarter of 2009, and a stark reversal from the nearly $28 billion in outflow recorded in the fourth quarter of 2012.

Share repurchases were a popular use of corporate cash, a record $1.8 trillion according to the Federal Reserve, as companies continued to buy-in shares at a rapid clip. Birinyi Associates reported February corporate buyback authorization announcements at $117.8 billion, the highest monthly reading since the firm began keeping records in 1985. The S&P 500 Index of large-cap stocks hit an all-time record high, bolstered by these strong fund inflows and corporate share buybacks. Equity mutual funds overall as a whole tracked by Lipper were up an average of 7.68 percent for the quarter, the second best quarterly showing since 1998. "Healthcare & Biotechnology" was the strongest performing market sector, with Lipper reporting funds in this sector delivering average returns of 15.53 percent.

Fortunately, the Aegis Value Fund performed well in the quarter despite minimal exposure to healthcare and biotechnology stocks. Interestingly, the Fund's best performer in the quarter was pharmaceuticals-related: **American Pacific Corporation (APFC – $22.31)** delivered a 50 percent share price increase in the first quarter, compounding a solid 30 percent share increase in the previous quarter. Results at the $175 million market-cap chemicals concern brightened as management improved performance at its pharmaceuticals-producing Fine Chemicals Division. Despite the price run-up, American Pacific continues to trade at a modest multiple of five times its growing EBITDA, given net debt of only $35 million. EBITDA is expected to be $43 million in 2013 and may improve a further $5 million if the company is able to fill capacity at its unused LaPorte chemicals facility. Overall, gains in American Pacific shares improved Fund performance by approximately 2.18 percent in the quarter.

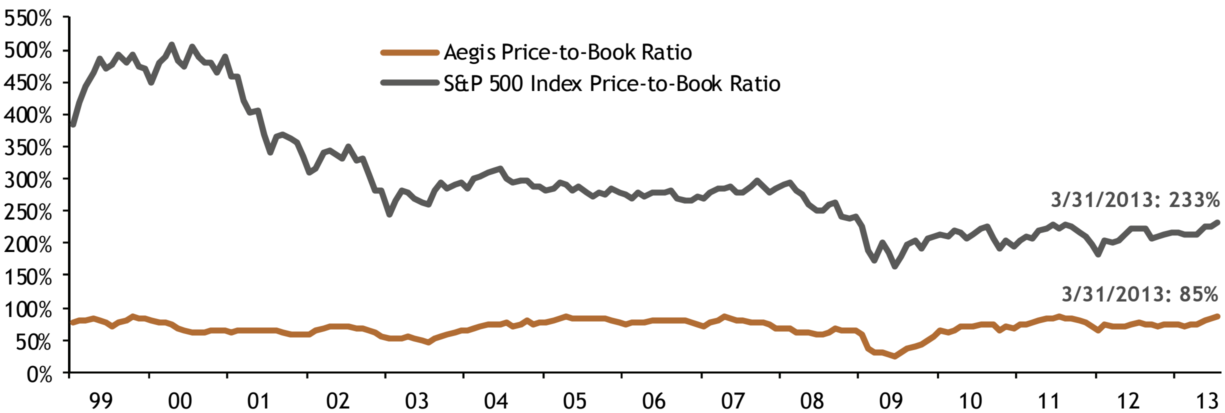
Outside of American Pacific, the Fund also showed strong gains from a number of other positions, including stock holdings of refrigeration compressor manufacturer **Tecumseh Products (TECUA/TECUB), American Safety Insurance (ASI), EPL Oil & Gas (EPL), and Patterson-UTI Energy (PTEN)**. Together, these four positions were responsible for improving quarterly Fund performance by approximately 4.77 percent.

Fortunately, there were no positions that significantly detracted from Fund performance in the first quarter. Most negatively impacting the Fund was our small position in the equity of **Alco Stores (ALCS – $7.34)**, a micro-cap general goods retailer that has been undergoing a multi-year turnaround effort. While fundamentals at the company remained relatively static, shares at the company drifted 20 percent lower. Declines in Alco Stores shares impacted quarterly Fund performance by 0.24 percent. At quarter-end, the position in Alco represented 0.77 percent of Fund assets.

Overall, with the powerful run-up in the market over the last six months, valuation levels have been climbing. The price-to-book value of the S&P 500 has increased from a low of 205 percent in mid-November to 233 percent today. On an earnings basis, the S&P 500 closed the quarter at a valuation of 15.42 times earnings, up from 14.12 times earnings at the end of December. While not an excessively high price-to-earnings multiple in historical terms, it is important to keep in mind that corporate profit margins are today at unusually high levels, having benefitted from a variety of factors that may be fleeting. Foreign labor competition has kept a lid on domestic wage rates in recent years, but Chinese labor wage rates have been roaring higher. Additionally, declining interest rates have kept the cost of servicing debt low, which is likely to reverse should interest rates increase. Depreciation charges and research and development spending pressures may creep higher as the nominal cost of replacing capital stock and recharging know-how increases on account of inflationary pressures. Corporate tax rates have been declining, but could increase as governments seek new taxes to balance budgets and repay debt. Finally, overall business activity in recent years has been driven by unsustainable, credit-fueled consumer and government demand. Should any of these trends reverse, profit margins are almost certain to suffer.

Figure 1:

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



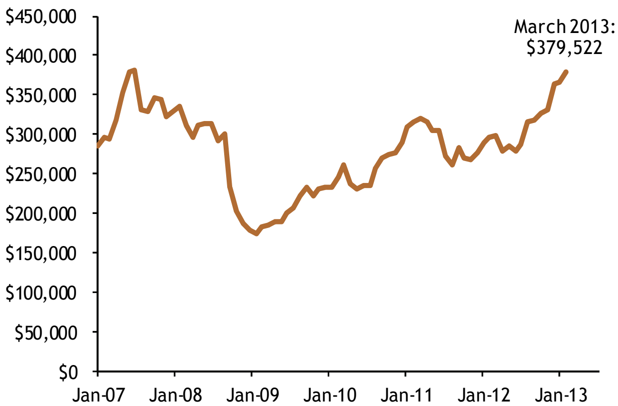
Source: Aegis Financial Corp. and Bloomberg

As can be seen in **Figure 1**, the Aegis Value Fund now trades at 85 percent of book value. While the Fund's quarter-end valuation is certainly up from 75 percent of book at year-end and is now somewhat above the Fund's historical average, the Fund's valuation continues to trade at a significant discount to the S&P 500. Of course the higher a stock's price-to-book multiple, the higher the return a company must earn on its equity to provide investors with an acceptable investment return. Fortunately, for our companies the hurdle still remains fairly low. We focus on stocks trading below book value because we continue to strongly believe that owning a portfolio of low price-to-book companies not only helps drive good investment returns, but also helps minimize permanent capital losses during periods of market mayhem.

For a value investor focused on capital preservation and growth, today's environment is certainly perplexing. Interest rates have descended to 40-year lows under the influence of significant Federal Reserve intervention. Politically powerful banking interests and other borrowers have been massive beneficiaries of the Fed's appalling interest rate suppression policies. These same policies have acted to the detriment of savers, who are now being pressured to invest in equities or other so-called "risk assets" to avoid sub-inflationary money market yields that slowly erode capital. Clearly this Fed intervention has played a role, if not a starring role, in supporting the stock market's extraordinary strength in recent months. As equity valuations have now become significantly more extended, signs of speculative activity are beginning to reemerge. As an example shown in **Figure 2**, consider that NYSE margin debt has now rebounded to the point that it has nearly surpassed its 2007 pre-crash high. Within the deep value space, increasing stock prices have been shrinking the number of Aegis investment watchlist candi-

Figure 2:

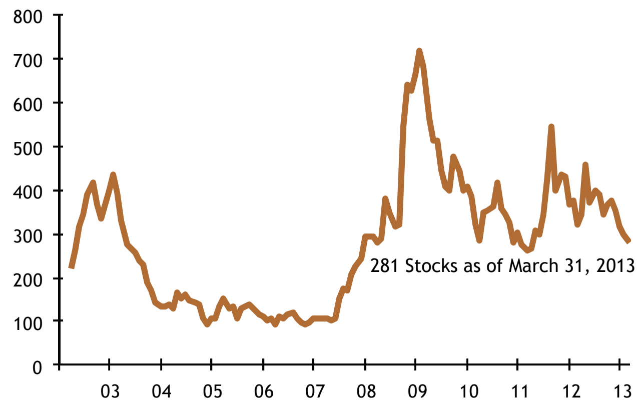
NYSE End of Month Margin Debt (mm USD)



Source: nyxdata.com

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.

dates (companies with market caps greater than $70 million trading under book value). As can be seen in **Figure 3**, the number of stocks on our watchlist is now down to near 5-year lows.

In the past, holding cash was a reasonable option for protecting capital given higher valuations and emerging speculative activity. Today we must also consider that recklessly profligate governments have also been increasingly monetizing debt through the printing press to support deficit spending, generating currency at rates unprecedented in recent years. We believe this activity by various governments world-wide puts the entire world monetary system of capital measurement under pressure. Government debt levels in some developed countries may have now become so high relative to GDP that payback is mathematically improbable without inflation-generating money-printing. Cash is clearly not the safe haven that it once was.

As a prime example, recently elected Japanese Prime Minister Shinzo Abe and central bank governor Haruhiko Kuroda recently decided to double Japan's monetary base by the end of 2014 with the intent to print 60-70 trillion yen (approximately $610-710 billion) per annum, using the currency to purchase a portion of the one quadrillion yen ($10.2 trillion) of Japanese government debt outstanding and a small amount of Japanese stocks and real estate investment trusts. Japanese government debt, currently at 237 percent of GDP and at 24 times Japan's basic tax revenues of $471 billion, requires interest payments that today consume nearly 20 percent of basic tax revenues, despite the Japanese 10-year government bond now yielding just 0.59 percent. Even a one percent increase in Japan's artificially low interest rates would require $100 billion more in interest alone, potentially leading to severe financial instability. We believe the unintended consequences of Japan's new program of inflationary money printing, dubbed "Abenomics," are likely to prove the program to be a costly error and may even lead to an uncontrolled meltdown of the yen. While the yen-denominated Nikkei jumped 19 percent in the quarter, currency markets reacted to the possibility of Japanese inflation by plunging the yen an nearly eight percent lower against the dollar. The yen has now lost a massive 28 percent of its value against the dollar since mid-September when it became likely that Abe would be elected Japanese Prime Minister.

Although it is likely that US Treasuries would be seen as a safe-haven for any Japanese capital flight in a yen meltdown, Japanese currency controls and heightened concern over all paper fiat currencies worldwide may offset any safe-haven effect. Investors are likely to consider that the US Federal Reserve has also been engaging in its own quantitative easing program, printing $85 billion a month of new, high-powered monetary reserves. Barron's Round Table member Fred Hickey recently calculated that if Fed money printing continues at this rate for the remainder of 2013 and all the high powered bank reserves were converted and multiplied through the fractional banking system into increases in the money supply ("M2") at the normalized multiplier rate last seen before our crisis in 2008, then M2 would soar from $10 trillion today to $33 trillion. With three times the money supply chasing the same level of goods and services, it is possible that monetary velocity could spike uncontrollably as investors began spending at a brisk pace to avoid holding rapidly depreciating dollars.

Given the current lay of the land, one area where we perceive market dislocations has been the mining space. With fiat paper currency vulnerabilities and the ever increasing amounts of euros, yen and dollars now circulating, it strikes us as plausible that gold and silver may become significantly more sought after. Yet during the quarter, the market's worst performing segments were perplexingly gold, commodity metals, and agricultural commodities, with Lipper reporting funds investing in these sectors all reportedly down: 16.93 percent, 6.89 percent, and 4.52 percent, respectively. While gold itself dropped only 4.7 percent over the quarter, it experienced the worst two-day decline in 30 years in April, dropping 13.0 percent. Huge redemptions are now being seen in gold ETFs and mining sector funds.

The largest purchase the Fund made in the mining space during the quarter was **Coeur d'Alene Mines Corp. (CDE - $15.40)**. Trading at 64 percent of tangible book value, this $1.6 billion market capitalization company is the largest U.S.-based silver producer with growing gold production. Coeur has low-cost mining assets primarily located in business-friendly jurisdictions including Mexico, Alaska and Nevada. Last year, Coeur ceased production at a mine in Argentina, and recently sold its interests in its Australian mine, exiting higher-cost, non-core operations. Production growth is expected to come from the Rochester mine in Nevada, where output is expected to increase 35-50 percent this year following a $30-35 million capital investment. Production also continues to ramp-up at Coeur's Kensington gold mine in Alaska after a six month retooling process. A turnaround effort is making progress to improve yields at the company's Palmarejo mine in Mexico, and a $20 million project underway at the silver producing San Bartolome mine in Bolivia which is expected to grow production by 10-15 percent starting in 2014.

Coeur recently bought Orko Silver, which owns the La Preciosa project in Mexico, for approximately $271 million. The project is one of the largest undeveloped silver resources in the world, and its purchase price equated to $1.07 per contained silver ounce, compared to Coeur's valuation of $1.65 per ounce. La Preciosa grows the company's silver reserves by 30 percent and has an estimated 19-year mine life. The company intends to leverage its experience and track record in large scale mine development to initiate production in the second half of 2016. Coeur debt, estimated at $360 million after the Orko acquisition, is almost fully offset by cash and equivalents. At today's $24 silver price and $1,450 gold price, Coeur trades at a modest 5.7x our EBITDA estimate of $284 million, and at only 7.4x EBITDA after $66 million of estimated maintenance capital expenditures. The company is highly leveraged to a recovery in silver prices, with every dollar increase in silver prices driving an $18 million EBITDA improvement, equivalent to approximately a dollar per share. Today, Coeur d'Alene Mines represents 3.07 percent of Fund assets.

Overall, the largest Fund purchase was **WPX Energy, Inc. (WPX – $15.73)**, an oil and gas exploration and production company spun-off from energy conglomerate Williams Companies (WMB) in December 2011. WPX possesses low-cost natural gas reserves predominantly located in the Piceance Basin of northern Colorado and is currently developing oil reserves on its acreage in the Williston Basin of the Bakken shale play in North Dakota. In WPX, we were attracted to a company with four trillion cubic feet of gas reserves located on held-by-production acreage, giving the company a strong, stable land pipeline for future development. The $3.1 billion market cap company trades at approximately 60 percent of an understated book value. With net debt of only $1.35 billion, the enterprise trades at a modest multiple to our $1.1 billion 2013 EBITDAX estimate. Furthermore, EBITDAX is likely to grow by $150 million as wet gas processing capabilities come online and unfavorable pipeline transportation contracts expire over the next two years. In addition, we believe the company's valuable Piceance-area acreage is highly prospective for additional unbooked reserves located in the Niobrara/Mancos shale. WPX's initial Niobrara/Mancos well produced a stunning initial flow rate of 16 million cubic feet per day of dry gas, and one billion cubic feet of gas over its first 100 days. The new Niobrara find has the potential to double the company's 18 trillion cubic feet of proved, probable and potential ("3P") gas reserves. We believe WPX, as a low-cost producer, has significant upside exposure to improving natural gas prices, with each $0.25 per mcf increase in the value of its gas reserves enhancing equity value by roughly $5.00 per share. Fundamentals, fortunately, seem to be providing some tailwind, with natural gas prices increasing nearly a dollar to approximately $4.39 over the last three months as a cold spring depleted gas in storage faster than expected. Our holdings in WPX currently represent 3.90 percent of Fund assets.

Over the quarter we were also fairly active on the sell side, disposing several names that had experienced price run-ups resulting in uncomfortably high valuation levels. Among the largest of these sales were the complete exit from our investment in oil refiners **Tesoro (TSO)** and **Western Refining (WNR)**. We also sold off our entire holdings of defense contractor **Sparton (SPA)**, oil service provider **Tetra Technologies (TTI)** and regional airline **Republic Airways (RJET)**.

In conclusion, we continue to hold a diversified set of investments that we believe are valued among the cheapest in the market today. While, as can be seen in **Figure 3**, the number of stocks on the watchlist has declined in recent months, we believe there remain a sufficient number of candidates to fill a full portfolio of investments with excellent risk/reward characteristics. Aegis employees and our families hold in excess of $20 million co-invested in the Fund. We monitor the portfolio carefully 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. Investments in Real Estate Investment Trusts (REITs) involve additional risks such as declines in the value of real estate and increased susceptibility to adverse economic and regulatory developments.

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 fourteen issues held by the Fund: American Pacific Corporation, Tecumseh Products Co. (A&B), American Safety Insurance Ltd., EPL Oil & Gas Inc., Patterson-UTI Energy Inc., Alco Stores, Coeur d'Alene Mines Corp. WPX Energy Inc., Tesoro Corporation, Western Refining Inc., Sparton Corp., Tetra Technologies, and Republic Airways. As of March 31, 2013, these stocks represent 5.1%, 3.4%, 4.1%, 3.9%, 3.5%, 0.8%, 2.4%, 3.4%, 0.0%, 0.0%, 0.0%, 0.0%, and 0.0% of total Fund assets respectively. Fund holdings are subject to change and should not be considered a recommendation to buy or sell a security. The letter also refers to Williams Companies, Inc. which is not and has not been a holding of the Fund. 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. **Price to Earnings:** A valuation ratio of a company's current share price compared to its per-share earnings. **EBITDA:** Earnings before interest, taxes, depreciation and amortization expense. **EBITDAX:** Earnings before interest, taxes, depreciation, amortization and exploration 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. **Cash Flow:** An accounting statement called the "statement of cash flows," which shows the amount of cash generated and used by a company in a given period. It is calculated by adding noncash charges (such as depreciation) to net income after taxes. Cash flow can be attributed to a specific project, or to a business as a whole. Cash flow can be used as an indication of a company's financial strength.

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

Fund Distributor: Quasar Distributors, LLC.