AEGIS **Value Fund**

Portfolio Manager's Letter
Quarter Ended March 31, 2015

April 30, 2015

Dear Aegis Investor:

The Aegis Value Fund (Class I) declined 5.19 percent during the first quarter of 2015, underperforming its primary small-cap value benchmark, the Russell 2000 Value Index, which delivered a positive 1.98 percent return. Fortunately, the month of April appears to have marked a turn, with the Fund (Class I) delivering a 7.88 percent monthly gain, versus a loss of 2.14 percent for the Russell 2000 Value Index. At the close of April, the Fund is now ahead of its Russell 2000 Value benchmark for 2015. Past performance data for the Aegis Value Fund and the Russell 2000 Value Index through March 31, 2015 are shown in **Table1**, below.

Table 1: Performance of the Aegis Value Fund as of March 31, 2015

			Annualized					
	Three Month	Year-to-Date	One Year	Three Year	Five Year	Ten Year	Since I Share Inception*	Since A Share Inception*
Aegis Value Fund Cl. I	-5.19%	-5.19%	-28.69%	2.52%	5.61%	4.59%	9.01%	NA
Aegis Value Fund Cl. A at NAV	-5.27%	-5.27%	-28.84%	NA	NA	NA	NA	-27.81%
Aegis Value Fund Cl. A-W/Load	-8.82%	-8.82%	-31.52%	NA	NA	NA	NA	-30.30%
Russell 2000 Value Index	1.98%	1.98%	4.43%	14.79%	12.54%	7.53%	8.19%	5.93%

** Aegis Value Fund Class I (AVALX) and A (AVFAX) Inception were 5/15/98 and 2/26/14, respectively.*

Performance data quoted represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data quoted. The investment return and principal value will fluctuate so that upon redemption, an investor's shares may be worth more or less than their original cost. For performance data current to the most recent month end, please call us at 800-528-3780 or visit our website at www.aegisfunds.com. Performance data for the Class A shares with load reflects the maximum sales charge of 3.75%. Additionally, performance for the Class A Shares without load is shown at NAV, and does not reflect the maximum sales charge. If reflected, total return would be reduced. The Fund's Class I (AVALX) and Class A (AVFAX) shares have an annualized gross expense ratio of 1.47% and 1.79%, respectively. The Fund Class I and Class A 's net annualized expense ratio, after fee waiver, is 1.46%, and 1.75%, respectively. The Advisor has contractually agreed to waive fees through 4/30/2016.

We have been disappointed to see the price levels of the stocks in our Fund decline with such magnitude over the last nine months. While we have experienced permanent losses on a few of our investments, we believe that in a far more representative number of cases, prices have declined well in excess of declines in the intrinsic value of our holdings. Over the last four months, we have spoken with a large number of the management teams at our portfolio companies. In these conversations we have reviewed company business conditions and financial strength, and we have evaluated our original investment thesis. Overwhelmingly, we have exited these discussions convinced that we are on track, and that we are likely to see a rebound from today's price levels. Despite this period of performance difficulty, we plan to stick patiently to our investment discipline, with a continued focus on our carefully chosen portfolio of discount to book-value stocks. With Fund holdings now trading at valuation levels we judge to be highly depressed, we predict a meaningful future recovery.

With our emphasis on companies trading at deep discounts to book value, we continue to hold significant investment in commodities-related companies in both the Energy and Materials sectors. Over the last several quarters, commodities have suffered meaningful declines as slowing growth in China and economic weakness in Japan and in the Eurozone impacted demand growth as new supply has come on line. A rapidly strengthening dollar, partially the result of a divergence in central banking policy between the United States and many other industrialized nations, was also affecting commodity prices. In the first quarter, the Euro has dropped 11.3 percent, the Canadian dollar 8.4 percent, the British Pound 4.9 percent, and the Brazilian Real a massive 17.1 percent against the dollar. While dollar strengthening has positively impacted operating margins at several of the Fund's portfolio companies operating in foreign jurisdictions, particularly within the mining, pulp and paper sectors, the recent period of ex-

traordinary dollar strength has negatively impacted many of our holdings of commodity producers. As the dollar strengthens, dollar-based prices of commodities are impacted directly. We also suspect the strengthening dollar is also negatively influencing commodities indirectly: Non-bank financial enterprises outside the United States owe nearly $9 trillion in dollar denominated debt, up dramatically in the last decade. As these enterprises presumably own assets with foreign currency-denominated cash flows, strengthening of the dollar may be irritating global financial conditions given the balance sheet currency mismatch between assets & liabilities, dampening worldwide growth and suppressing commodity demand.

Commentary on oil's decline has commanded a significant share of headline space in the first quarter, with the price of West Texas Intermediate Crude tumbling another 10.64 percent, compounding 2014's precipitous fall. Natural gas prices also experienced declines in the quarter, dropping another 8.62 percent. Market sentiment towards energy investments remained poor, with many companies in the sector posting double digit percentage quarterly drops amid investor concerns over corporate leverage and mal-investment. Valuations of many energy equities on a price-to-book basis have been among the lowest we've seen, and at quarter-end, energy equities made up 27 percent of North American companies trading at less than one times book value.

With regard to our outlook for energy prices, we continue to believe that both oil and natural gas prices are likely to rebound nicely with time. In our analysis, current pricing levels of oil will not result in sufficient worldwide investment to both replace declining legacy production and satisfy growing levels of worldwide demand. While we are convinced that pricing will trend higher over time, we are not convinced the path will be smooth. Oil's high cost of storage makes it a commodity with an inherently volatile price. Furthermore, Saudi Arabia appears to be strategically attempting to effect an increase in oil's volatility with the objective of raising the energy industry's longer-term cost of capital. Nevertheless, we believe that the rewards will be robust for energy investors willing to ride out the volatility.

The outlook for domestic natural gas prices also appears to be strong. We calculate natural gas domestically may experience a nearly 20 billion cubic feet/day (bcf/d) demand increase over the next five years, a large increase relative to today's production of 73 bcf/d. Furthermore, we understand nearly 16 bcf/d of domestic natural gas production is derived from oil wells, with half of that coming from shale oil wells where production experiences rapid declines. Given the 53 percent plunge in domestic rig count since the third quarter of 2014, we anticipate that a fall-off in gas production balances the market over the coming quarters, leading to an improved price.

While we wait for the prices of both oil and gas to recover, we've been adding to our investment in energy stocks, purchasing additional shares in **WPX Energy (WPX)**, **Mitcham Industries (MIND)**, **Parker Drilling (PKD)**, **McDermott International (MDR)**, **Gulfmark Offshore (GLF)**, and **Rowan Companies (RDC)** in the first quarter. At quarter end, energy stocks represented approximately 16 percent of Fund assets, a little more than four times the weighting of the Russell 2000 Value Index. Energy stocks were nevertheless big losers for the Fund in the first quarter, responsible for nearly 4 percentage points of Fund declines.

A 53 percent first quarter decline in **Paragon Offshore (PGN)** alone negatively impacted the Fund by 1.75 percentage points. The $150 million market cap offshore drilling concern was the biggest detractor from Fund performance. While the company is highly levered with nearly $2.2 billion in debt, Paragon's long-term debt maturities and long-term rig contracts help mitigate near-term financial risk. We purchased the stock as it was dramatically selling off in the second half of 2014 amid investor fears that its older, "classic" jackup rigs would be unable to secure additional work, losing out to a large orderbook of new, "high spec" jackup rig deliveries which were poised to hit the market just as offshore drilling demand fell victim to plunging oil prices. Our thesis has been that "classic" jackups are more out of favor in the stock market than in the rig rental market, given our understanding that "classics" often have lower operating costs and are capable of executing nearly 80 percent of all jackup work, much of which is development work profitable at sub-$50 crude price levels. Given the longer-dated maturities of the debt, we believe the equity presents an attractively priced long-dated call option on a jackup market recovery over the next several years. Concerns over the large jackup orderbook have afflicted the market for some time. More recently, growing fears that national oil companies PEMEX and Petrobras would abrogate contracts have also plagued the company. Fortunately, Paragon has been able to secure several additional contracts for work into 2015 and beyond, adding $92 million to backlog in the first quarter despite competition from others, including competitors with more recently built "high spec" rigs that were sitting idle. So far, PEMEX and Petrobras continue to honor their obligations and pay their bills. Today, Paragon's equity trades at just 30 percent of its $490 million book value, which has already been subject to nearly $1.1 billion of write-downs over the last two quarters. We estimate the company's equity trades at approximately one times estimated 2015 free cash flow before working capital adjustments of $175 million. We believe Paragon shares are strongly levered to an energy recovery, having rebounded 39 percent in April alone as oil prices began to recover.

McDermott International (MDR) bucked the first quarter trend in the energy space, becoming one of the top two contributors to Fund performance in the quarter, adding 0.70 percentage points. We had picked up shares in this $1.5 billion market cap global offshore construction contractor after previous management had substantially underbid several contracts, leading to large losses. Our thesis was that a new executive we respected, David Dickson, would succeed in bringing in best practices and turning McDermott around, improving margins once the problematic contracts rolled off the books and better contracts were brought in. With the steep drop in energy prices compounding turnaround difficulties, McDermott's stock plunged in 2014 as investors became concerned about a possible falloff in business complicating McDermott's turnaround efforts. Fortunately, after a significant amount of restructuring, McDermott has won several new substantial contract awards in 2015, which has led to a 32.0 percent increase in its stock in the first quarter, and a further 36.7 percent increase in April. Despite the increase in share price, McDermott still trades at just 0.95 times book and just six times our estimate of normalized free cash flow. McDermott's balance sheet is rock solid, with cash of $665 million nearly matching its debt of $892 million, ensuring that the company has sufficient liquidity to survive a prolonged downturn while still meeting its newbuild capital expense obligations. McDermott's stock increased nearly 400 percent from the trough levels reached in late 2008 during the height of the credit crisis as crude recovered in 2009-2011. Today, even after the recent gains, McDermott shares still remain near those trough levels of 2008.

During the quarter, our Fund's largest purchase was **Cloud Peak Energy (CLD)**, replacing **Peabody Energy (BTU)**, which we sold. We swapped out these two coal companies because we believe Cloud Peak offers a lower risk opportunity to participate just as meaningfully in the recovery of the deeply out-of-favor coal industry. Cloud Peak has lower valuation multiples, trading at just 0.42 times book value vs Peabody at 0.52 times. At current prices, Cloud Peak's $820 enterprise value is just 6.1 times forward EBITDA expectations vs. Peabody, which trades at approximately 10.5 times. Cloud Peak is also much less levered, with debt/total capital of only 24 percent vs. Peabody at a much higher 65 percent, better insulating equity value should weak coal prices persist. Cloud Peak has three thermal coal surface mines in the low-cost Powder River Basin in the western United States. It has no met coal or foreign coal exposure whereas Peabody has significant met-coal exposure in Australia, where take-or-pay rail contracts can require operations to keep running, even at large losses. With Cloud Peak, there is an opportunity to take advantage of a longer-term recovery in the seaborne thermal coal market. From our vantage point, a recovery in seaborne thermal coal pricing is significantly more probable than a recovery in met coal as growth in future thermal coal demand driven by low-cost electrical generation now being constructed in Asia looks to be far more likely than an increase in met-coal demand driven by continued growth in Chinese construction. At quarter-end, Cloud Peak represented 1.75 percent of Fund assets.

The first quarter also gave rise to significant volatility in the prices of a few of the Fund's large investments in smaller market-cap companies. Frequently, our holdings are special situations undergoing some degree of restructuring, at times under new management teams. Financial reports from these businesses can often be somewhat messy and unattractive for a period, as losses are reported while the company undergoes restructuring or downsizing wherein money-losing divisions are closed, charges taken, and assets sold. In other cases, these firms are experiencing the effects of transitory industry influences or external shocks that negatively impact short-term results. In our experience, conventional investors can often become groundlessly despondent as transitory losses flow through financials, and will sometimes sell irrationally, driving firm valuations to significant discounts to longer-term intrinsic value. Many discount to book-value investment candidates we have purchased over the years have been situations of this type. While no two cases are ever alike, we try to approach these investments with the research rigor to accurately assess longer-term intrinsic value and the patience to wait-out poor short-term results and depressed stock prices pending a recovery. **Alliance One (AOI)**, **Delta Apparel (DLA)**, **Zeus (ZEUS)**, **Tecumseh Products (TECU)**, **Ruby Tuesday (RT)**, and **Basset Furniture (BSET)** have all been investments of this type.

When these stocks do recover, the turn can be quick and the results impressive. For example, gains in the Fund's holding of **Delta Apparel (DLA - $12.27)** contributed 0.88 percentage points to Fund returns in the first quarter, making Delta Apparel the Fund's biggest gainer in the quarter. Delta Apparel is a $100 million market-cap manufacturer of commodity and branded casual and athletic apparel and headgear. Shares were impacted over the last year as cotton price declines and softer retail sales squeezed profit margins. Furthermore, the cost structure had swollen under an aspirational new Chief Operating Officer. The Board reacted last year, dismissing the COO and engaging in a cost-cutting restructuring of the business. We concluded that the CEO, Robert Humphreys, would be able to fix the cost structure, and that the high priced cotton held in inventory would be sold in a few quarters, leading to much better future margins on Delta's approximately $450 million of annual revenues. The Fund acquired additional shares in the second half or 2014 as skittish investors exited on concern over the drop in profitability. As cotton prices now appear to have stabilized, and investors have become more confident that a turnaround in results is likely, shares have rebounded more than 40 percent from first quarter lows. We project the

company, with its valuable Soffe and rapidly growing Salt Life brands, has the potential to earn net income in excess of $2 per share and appreciate above its $17 book value within the next couple of years as sales grow and margins recover.

While Delta Apparel shares have been on the upswing, **Alliance One International (AOI—$1.32)** shares have continued to drop as the company restructures. Market declines of this $115 million market cap tobacco leaf processor have negatively impacted first quarter Fund performance by 1.45 percentage points. We have used these declines as an opportunity to add significantly to our position during the quarter. At quarter-end, 5.74 percent of Fund assets were invested in Alliance One, making it our largest Fund position. We believe shares in this company are extraordinarily undervalued at this time, with the potential to move significantly higher in the next few years. Alliance One share prices dropped precipitously in recent months as the company was deemed too small for the S&P 600 Index and was ejected, resulting in an unusual amount of technical selling by passive index-related investors, including a massive 12 million shares, nearly 14 percent of those outstanding, on the day of the ejection itself. As a result, shares plunged from the $2 level in early November to as low as $0.86 on March 11th before recovering to $1.32 today. We also understand that another large institution has been selling Alliance One following a portfolio manager change, a process that can sometimes lead to selling without careful deliberation. We know that periods of technical selling can offer a tremendous opportunity. In fact, in the first quarter we finished selling our position in **Bassett Furniture (BSET)** at a per share price in the mid $20s. Long-term shareholders may recall we purchased a material portion of our Bassett position in early 2009 at approximately $1.00 per share during a period of passive forced sales when the company was ejected from an Index at the depths of the credit crisis.

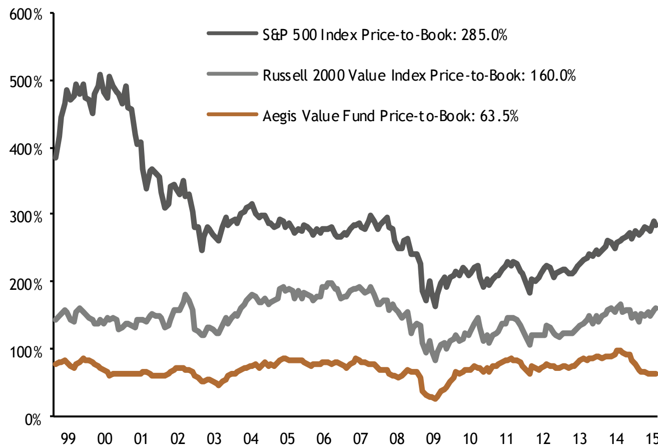
Today, not only is Alliance One suffering from technical selling pressure, but it is also, we believe, fundamentally misunderstood by investors. We suspect investors are highly focused on the extraordinarily high debt at the company - $1.45 billion at year-end. Investors might also be worried about the deteriorating cash flow picture, wherein EBITDA has been sliding from $270 million in fiscal 2010 to just $170 million in calendar 2014. The deterioration of EBITDA has resulted in the company's bonds being downgraded by Standard & Poor's and Moody's. The market is also worried the company will soon be in violation of a covenant on its $210 million senior secured credit facility. Declining U.S. cigarette consumption and the trendy emergence of e-cigs and vaping has also left many questioning whether traditional tobacco might itself also be experiencing an irreversible secular decline. With Alliance One equity and debt prices also plunging, it would not surprise us if many believed the company has been on the verge of bankruptcy.

Having spent nearly 17 years invested on and off in the tobacco leaf industry, including multiple investments over the years with both AOI's predecessor companies and its primary competition, Universal Corporation, we hold a divergent viewpoint which is backed by several facilities visits and numerous hours of conversation with management, investors, customers, competitors and industry contacts. We see Alliance One as a highly regarded, critical supplier to the tobacco manufacturers, one of only two independent leaf dealers handling approximately 10 percent of the tobacco leaf smoked in the world. We see the weakness in recent results as the function of a significant but substantially transitory inventory destocking by its customers, which has led to falling leaf prices, shipment delays, and working capital pressures. We see this destocking ending and business conditions improving just as Alliance One experiences the benefits of restructuring and capital investment over the last few years. With an additional $35 million of recently announced annualized cost savings, lower green leaf pricing and a more optimized global footprint potentially freeing up what we estimate may be as much as $200 million in capital over time, there should be ample liquidity to adequately deleverage. Investors who fret about today's high debt levels should consider that a substantial portion of the company's debt consists of global revolving credit facilities and long-dated high yielding notes used primarily to fund working capital. Debt is well backed by $960 million inventories generally committed to customers at agreed pricing and $280 million in receivables from highly rated cigarette manufacturers. With $225 million in cash and other secured lending options available, the company appears to have more than adequate liquidity to pay off its senior secured credit facility, if needed, and still fund growth in its operations. We see margins improving as the dollar has strengthened, a result of lower cost leaf grown in Brazil and other jurisdictions with weakening currencies. Recent moves by Philip Morris and other manufacturers to outsource more functions to Alliance One should also improve future margins. While e-cigs and vaping are likely to capture additional share over time, the government may soon step in to regulate the e-cig market, slowing the rate of growth. Regardless of what the government does, traditional cigarettes are likely to keep the overwhelming portion of market share for several years to come. Alliance One's strong relationships in China, where consumption of American blend tobaccos is still growing rapidly, is a big offset to domestic declines, and is likely to be a strong future driver of profitability.

AEGIS FUNDS

Figure 1:

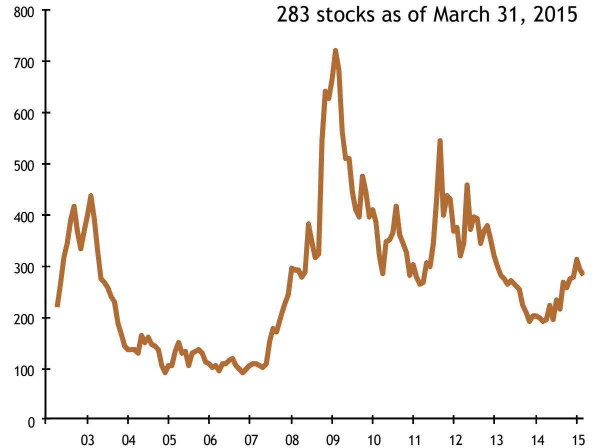
Aegis Value Fund, S&P 500 Index, and Russell 2000 Value Index Historical Price-to-Book Ratio



Source: Aegis Financial Corp and Bloomberg (Data from 9/30/1998 to 03/31/2015

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 (Data from 4/30/2002 to 03/31/2015)

Overall, as a result of these trends, we believe the company is on track to generate 14 percent gross margins and 10 percent operating margins on close to $2.5 billion of tobacco sales within the next three-to-four years, which, if obtained, would result in annual operating earnings of $250 million, a steady deleveraging of the balance sheet, and an equity market value significantly higher than $115 million. While nothing is certain, we feel comfortable with our work and the risk/reward profile of our large position in Alliance One.

We continue to hold a significant number of investments, amounting to 20 percent of Fund assets at March 31, in metals and mining companies. These stocks continue to trade near multi-year lows on valuation. Despite gold and silver prices remaining fairly range-bound in recent months, fundamental developments have been positive at several of our holdings, with favorable resource extensions at **Lake Shore Gold (LSG)**, **Coeur Mining (CDE)**, **Continental Gold (CNL.TO)**, and **Nevsun (NSU)**. **Amerigo Resources (ARG.TO)**, which produces copper in Chile from Codelco's el Teniente project in Chile, successfully obtained low-cost financing to expand operations to enable the company to process ore from a higher grade tailings pond. When the project is completed in the next six months, Amerigo's operating costs per pound should decline significantly. Assuming the recent upsurge in copper pricing holds, we forecast the company is on track to generate $38 million in EBITDA in 2016, less than three times the company's $110 million enterprise value (pro-forma to include project debt to be incurred).

Overall, we continue to invest in a carefully selected portfolio of intensely researched securities that we believe are among the most undervalued in the market today. While we realize the timing of value recognition can be frustrating and difficult to predict, we believe that the portfolio, at just 63.5 percent of book value, represents excellent value against the broad indices (see **Figure 1**). I have personally been adding to my holdings of the Fund, and I am encouraging others to do likewise. Employees and our families today have in excess of $17 million of Fund shares. Please know we are watching our investments closely. Should you have any questions, please feel free to call our shareholder representatives at (800) 528-3780. You are also welcome to call me personally at (571) 250-0051. We appreciate your continued support of our work.

Sincerely,

Scott L. Barbee

Scott L. Barbee
Portfolio Manager
Aegis Value Fund

AEGIS FUNDS

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 and mid-cap 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.

The Fund's top ten holdings are Alliance One International Inc., Delta Apparel Inc., Photronics Inc., Nevsun Resources Ltd., Tecumseh Products Co., Resolute Forest Products Inc., Mercer International Inc., EGI Financial Holdings Inc., Ruby Tuesday Inc., and Universal Stainless & Alloy. As of March 31, 2015, the stocks represent 5.7%, 4.9%, 4.3%, 4.2%, 4.0%, 4.0%, 3.7%, 3.5%, 3.3%, and 3.3%, 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 PEMEX and Petrobras, which are not and have 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. **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:** measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values. **Tangible Book Value:** The net asset value of a company, calculated by total assets minus intangible assets (patents, goodwill) and liabilities. **The Russell 2000 Index**: measures the performance of the small-cap segment of the U.S. equity universe and is constructed to provide a comprehensive and unbiased small-cap barometer. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. **Cash Flow:** A revenue or expense stream that changes a cash account over a given period. **Debt to EBITDA:** A measure of a company's ability to pay off its incurred debt. This ratio gives the investor the approximate amount of time that would be needed to pay off all debt, ignoring the factors of interest, taxes, depreciation and amortization. **Free cash flow (FCF):** Representing the cash that a company is able to generate after laying out the money required to maintain or expand its asset base. **S&P 600 Index:** The S&P 600 Small Cap Index covers a broad range of small cap stocks in the United States. The index is weighted according to market capitalization and covers about 3-4% of the total market for equities in the United States. **Discount to Book Value:** A company's stock trades at a discount to book value when its market capitalization is less than the book value. **Enterprise Value to EBITDA:** It is a valuation measure calculated as enterprise value divided by earnings before interest, taxes, depreciation, and amortization. **Enterprise Value:** The market capitalization plus debt, less cash. **Call Option:** An agreement that gives an investor the right (but not the obligation) to buy a stock, bond, commodity, or other instrument at a specified price within a specific time period.

An investment cannot be made directly in an index.

Equities, bonds, and other asset classes have different risk profiles, which should be considered when investing. All investments contain risk and may lose value.

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

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