AEGIS **Value Fund**

AEGIS FUNDS

Portfolio Manager's Letter
Quarter Ended June 30, 2013

July 25, 2013

Dear Aegis Investor:

The Aegis Value Fund delivered a positive performance for the second quarter of 2013 on both an absolute and relative basis. For the quarter, the Fund increased 3.73 percent, outperforming the Russell 2000 Value Index, its primary benchmark, which rose by 2.47 percent. Past performance figures for the Aegis Value Fund and the Russell 2000 Value Index are presented in **Table 1** below:

Table 1: Performance of the Aegis Value Fund as of June 30, 2013

	Three Month	Year-to-Date	One Year (Annualized)	Three Year (Annualized)	Five Year (Annualized)	Ten Year (Annualized)	Since Inception* (Annualized)
Aegis Value Fund	3.73%	21.20%	40.15%	23.13%	11.59%	10.44%	11.89%
Russell 2000 Value Index	2.47%	14.39%	24.76%	17.33%	8.59%	9.30%	7.58%

** 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%.

The S&P 500 Index pushed 2.91 percent higher in the quarter as U.S. equities refused to surrender to renewed investor concerns over a potential curtailment of the Fed's money-printing program of "quantitative easing." Equities in consumer services, healthcare, and financial services showed particularly strong results, with Lipper reporting funds dedicated to these sectors generating quarterly returns of 6.20 percent, 4.97 percent and 4.93 percent, respectively. The bond markets were more heavily impacted as news the Fed may slow its significant purchases of Treasuries and mortgage-backed securities sent shockwaves through the markets. As bond prices dropped, yields soared, with the 30-year Treasury yield rising approximately 0.75 percentage points in just eight weeks to close June at 3.50 percent. Investors reacted, dumping taxable fixed income funds and muni bond funds, with Lipper reporting quarterly mutual fund outflows from these segments at approximately $16.8 and $16.9 billion, respectively. According to Lipper, in just the last week of the second quarter, a massive $4.4 billion in muni-fund outflows were experienced, the biggest weekly outflow from muni funds on record.

Second quarter's positive Russell 2000 Value return marked the fourth consecutive quarter of positive returns for the Index. Russell 2000 Value returns have now been positive in six of the last seven quarters. As of the mid-July timing of this letter, the positive sentiment has continued, with the tech-heavy NASDAQ 100 Index actually having just delivered a record 14-day straight run of gains, the longest daily winning streak in 23 years. Trimtabs is now reporting that investors have moved $27 billion of new money into US equity mutual funds and ETFs in the first half of July, the fastest rate of inflows this year.

As was the case in the first quarter, performance at the Aegis Value Fund was again driven by strong returns on our positions in **Tecumseh Products (TECUA/TECUB)** and **American Pacific (APFC)**. Gains in these two positions most positively impacted fund returns in the second quarter, by approximately 1.1 and 1.0 percentage points, respectively.

At Tecumseh, a global manufacturer of compressors for commercial refrigeration and air conditioning systems, shares have been climbing on improved investor sentiment as management is starting to show progress in turning around the enterprise. While results to date have been slow to materialize, we believe that several initiatives in the pipeline at Tecumseh are likely to drive further improvement. These include a cost-saving initiative to reengineer several high-volume product lines away from use of copper-based components and towards less expensive aluminum components. Together, management expects these initiatives to more than double Tecumseh's current EBITDA margin to levels closer to 10 percent over the longer-term, driving cash flow significantly higher. Additionally, the company's modest valuation at approximately 90 percent of book value, the possibility of a monetization of non-core assets, and management's announced intention to collapse shares into an investor friendly one-class structure all bode well for the possibility of higher future share values at Tecumseh. We purchased additional shares of Tecumseh during the quarter, and at quarter-end, the Fund position in the class A and B shares combined represented 4.7 percent of Fund assets.

American Pacific was both the Fund's top gainer and the Fund's biggest sale of the quarter. Shares of American Pacific gained more than 20 percent to close the quarter at $28.35 amid strong results and increased 2013 EBITDA guidance. CEO Joe Carleone and his employees have been doing a terrific job these last few years not only in improving the previously lagging Fine Chemicals business, but also in disposing of a non-core business at a great price. Board governance has also been markedly improved. Nevertheless, we concluded that American Pacific's share price has been increasing recently at a pace substantially in excess of the rate of business improvement, resulting in an ever more stretched valuation. Fortunately, with share prices up remarkably from the sub-five dollar level in late 2010, the company's market-cap had grown substantially enough to merit addition to the Russell 2000 Index in June. As passive index funds and ETFs with an obligation to mimic the Russell 2000 Index were required to purchase the stock, we took the opportunity to sell and completely exited our position.

Outside of Tecumseh and American Pacific, the Fund's energy positions were generally winners, with price increases on holdings of **WPX Energy (WPX)** and **EPL Oil & Gas (EPL)** together responsible for another approximately 1.3 percentage points of Fund performance. Notably, the Fund also benefited in the quarter by approximately 0.6 percentage points as **American Safety Insurance Holdings (ASI)** received a buy-out bid from Canadian value investor Prem Watsa's **Fairfax Financial Holdings (FFH-Toronto Exchange)** at a substantial premium.

The metals and mining space was once again the stand-out loser in the second quarter. Lipper recently reported that gold sector funds declined 35.0 percent in the quarter, ranking gold funds the second quarter's poorest performing fund sector. Interestingly, the decline was also the worst quarterly performance for gold sector funds since Lipper began tracking the segment in 1960. These funds have experienced quite a rout considering the second quarter's decline compounded a significant 16.9 percent first quarter decline. With gold itself down another 23 percent and silver down another 30 percent in the second quarter, margins at many mining companies have been deteriorating. As if commodity price declines weren't enough, many mining enterprises are now also facing headwinds in the form of higher operating costs as well as heightened risk of property expropriation and impairments. Predictably, investor sentiment in metals and mining has become extraordinarily bearish. With investors scurrying for the exit, metals and mining funds have been suffering significant redemptions, forcing gold sector funds to sell their equity holdings into a hostile market, resulting in still further declines.

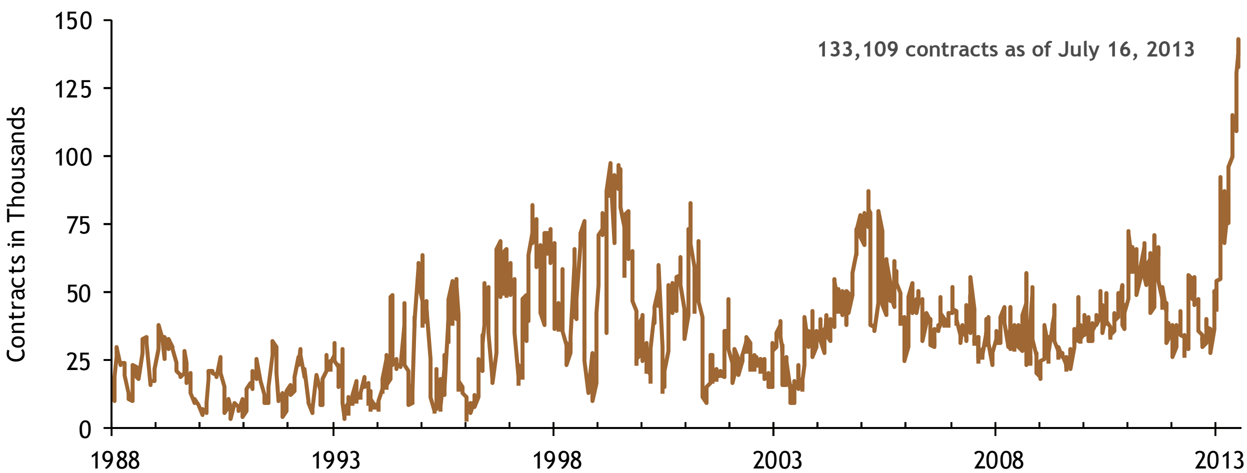
In the first quarter, as the liquidations and selling pressure in precious metals began to build, we intensified our research in the segment and ultimately acquired a few positions in metals and mining stocks. Unfortunately, we were early, and given the continued decline in the metals and mining space, these early positions negatively impacted the Fund in the second quarter.

Coeur Mining (CDE), previously known as Coeur d'Alene Mines, is our largest metals and mining position. It was also the biggest detractor from Fund performance in the quarter. We discussed Coeur Mining in our first quarter letter, highlighting its growing production, its Mexican La Preciosa project development opportunity, and its leverage to changing silver prices. Unfortunately, silver prices declined nearly 30 percent, and the stock suffered, dropping from $18.86 per share at the end of March to close the quarter at $13.30. Additionally, a previously announced Coeur deal to sell a high-cost mining operation in Australia fell through when the buyer walked away, and a dispute with Rye Patch Gold (RPM-Toronto Exchange) over a mining claim at Coeur's Rochester, Nevada mine was settled for a higher price than some investors anticipated.

In the case of Coeur Mining, despite these setbacks, we have continued to add to our position as the stock continued its decline, and Coeur ended up once again being the Fund's largest purchase in the quarter. We continue to find the company's low leverage levels attractive. The valuation has also become more compelling, as we calculate Coeur Mining now trades at just 58 percent of book value. We remain convinced the company is well managed by an experienced team, and is focused on projects in the right jurisdictions. Unfortunately, declines in the price of Coeur have impacted our second quarter returns by approximately 0.8 percentage points. At quarter's end, we held 3.65 percent of Fund assets in Coeur Mining.

Figure 1:

Speculative Short Position in Gold



Source: U.S. Commodity Futures Trading Commission

Additionally, we have experienced price declines in other metals and mining holdings, with **Dalradian Resources (DNA-Toronto Exchange)**, **Amerigo Resources (ARG-Toronto Exchange)**, **Aurico Gold (AUQ)**, **McEwen Mining (MUX), International Tower Hill Mines (THM),** and **Nevsun (NSU)** together impacting Fund performance by another approximately 1.48 percent. At quarter's end, we had a total of 7.70 percent of the Fund allocated to metals and mining stocks overall.

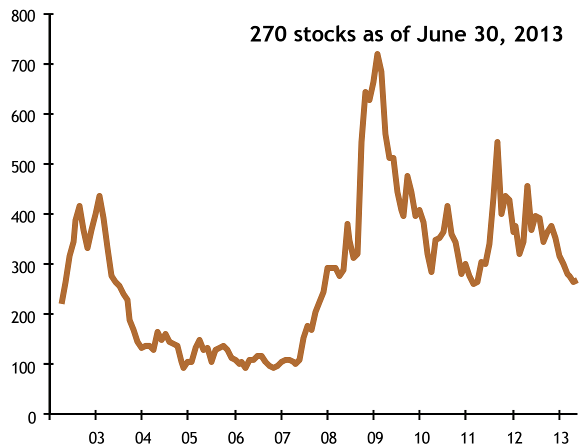
While we have purchased each of our mining positions primarily based on company specific factors and believe these portfolio companies can perform well despite the lower pricing environment for precious metals, clearly investment returns in these cases can be highly influenced by pricing of the underlying commodities. While copper and silver have industrial uses, certainly gold is a commodity with more of an emotional underpinning. Gold has plunged in recent months as Federal Reserve Chairman Ben Bernanke began communicating the possibility of an eventual "tapering" of its money-printing, bond-purchasing program. While Fed rhetoric appears to have shifted to a slightly more hawkish tone, the Fed's actions to supply $85 billion a month of liquidity to the economy through a historically unprecedented program of money printing continue unabated. The Fed also continues to peg interest rates at levels well under the rate of inflation, which is itself a statistic that many investors believe is being underreported. We believe there is a strong possibility that the central banks of many developed countries may experience far more difficulty exiting from their money printing programs and shrinking their bloated balance sheets than many currently expect. Elevated and potentially hyper levels of future inflation are certainly a possibility. In such a case, we would expect to see gold trend significantly higher. Furthermore, as can be seen in **Figure 1**, speculative short positions in gold are now at a multi-decade high, with investors now short over 450 tons of gold (equivalent to approximately 133,000 contracts). With so many investors short, we believe the gold market is highly susceptible to a technical rebound.

With stock prices strongly surging over the last year, finding stocks with good value characteristics today is becoming more difficult. As seen in **Figure 2**, the number of stocks on our watchlist with a market-cap above $70 million trading at a discount to book value decreased by eleven from last quarter to 270 and is now slightly beneath the 10-year average of 282. The number of watchlist stocks has come down remarkably from 545 in the third quarter of 2011. While there continue to be serious dislocations in the metals and mining sector and some negative sentiment today in companies involved in natural gas, coal, mortgage real-estate investment trusts, and the bulk shipping segment, the broad market today appears somewhat more picked-over than has been the case in quite some time.

In this kind of environment, we believe superior returns are far more likely to be earned by minimizing investment mistakes than in stretching for return. We intend to focus our efforts on remaining diligent about risk and will work conscientiously to keep the portfolio invested in companies with good risk/reward characteristics that we believe are among

Figure 2:

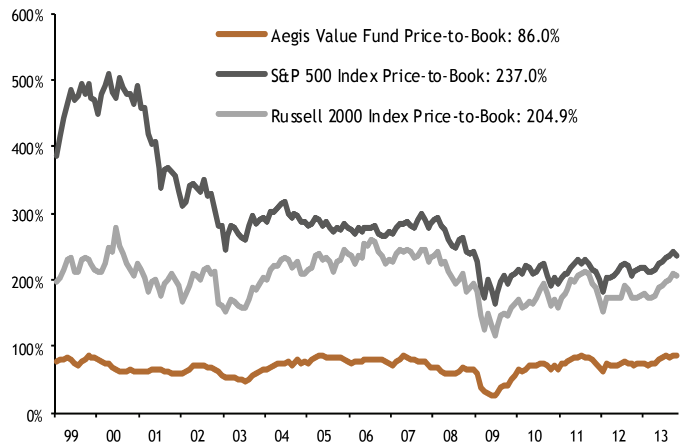
Number of Stocks Selling Below Tangible Book Value
(Market Cap. Greater Than $70 Mil)



Source: U.S. public equity market statistics from Stock Investor Pro

Figure 3:

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



Source: Aegis Financial Corp and Bloomberg

the cheapest bargains in the market. As can be seen in **Figure 3**, stocks in the Fund continue to trade significantly cheaper on price-to-book than the broader market indices. Given the modest size of the Fund and the experience of the investment team, we continue to believe that we will be able to successfully track down a sufficient number of stocks worthy of investment, despite an overall market that does not currently appear particularly undervalued. In doing so, we intend to remain methodical, selective, and disciplined about our investments. As of June 30, 2013, employees here own in excess of $20 million in Fund shares, and we continue to monitor the portfolio closely for emerging risks. Should you have any questions, please feel free to call the shareholder representatives at (800) 528-3780. You are also welcome to call me personally 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 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 thirteen issues held by the Fund: American Pacific Corporation, Tecumseh Products Co. (TECUA&TECUB), American Safety Insurance Ltd., WPX Energy Inc., EPL Oil & Gas Inc., Coeur Mining Inc., Dalradian Resources Inc., Amerigo Resources Ltd., Aurico Gold Inc., McEwen Mining Inc., International Tower Hill Mines, and Nevsun Resources Ltd.. As of June 30, 2013, these stocks represent 3.1%, 3.0%, 1.7%, 3.9%, 4.4%, 2.0%, 3.7%, 0.5%, 0.7%, 0.6%, 0.2%, 0.1% and 2.0% 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 Fairfax Financial Holdings and Rye Patch Gold 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:** 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. **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. **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:** 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. **ETF (Exchange-Traded Fund):** A security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. **Gold Contract:** measured at 100 oz. per contract and at 29,1666.67 troy ounces per short ton.

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

Fund Distributor: Quasar Distributors, LLC.