AEGIS **Value Fund**

AEGIS FUNDS

Portfolio Manager's Letter
Quarter Ended September 30, 2015

October 26, 2015

Dear Aegis Investors:

The Aegis Value Fund (I Shares) declined 15.88 percent during the third quarter to close September down 13.5 percent year-to-date, nearing the lows of the year at quarter-end. The Fund's primary Russell 2000 Value benchmark dropped 10.73 percent for the quarter. Past performance figures for the Aegis Value Fund and its Russell 2000 Value benchmark are shown in **Table 1** below.

Table 1: Performance of the Aegis Value Fund as of September 30, 2015

	Three Month	Year-to-Date	One Year (Annualized)	Three Year (Annualized)	Five Year (Annualized)	Ten Year (Annualized)	Since I Share Inception* (Annualized)	Since A Share Inception* (Annualized)
Aegis Value Fund Cl. I	-15.88%	-13.50%	-26.69%	-2.41%	4.22%	3.61%	8.17%	NA
Aegis Value Fund Cl. A at NAV	-15.92%	-13.67%	-26.85%	NA	NA	NA	NA	-24.54%
Aegis Value Fund Cl. A-W/Load	-19.05%	-16.91%	-29.58%	NA	NA	NA	NA	-26.34%
Russell 2000 Value Index	-10.73%	-10.06%	-1.60%	9.18%	10.17%	5.35%	7.17%	-3.87%

** 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.

The employees here at Aegis maintain a large investment in our Fund. For more than 17 years, we have been working diligently to deliver competitive returns and minimize risk of permanent capital loss by focusing on stocks trading at sizeable discounts to book value. While this approach has served us very well in the past, we have been disappointed with the recent outcome, both in the quarter and over the last year. Historical studies of discount to book value investing have demonstrated that securities trading at discounts to book have generally outperformed the broader market. Unfortunately, this discount to book investment strategy has been performing poorly in recent months. We calculate that a market-cap weighted investment in all North American companies trading at less than 80 percent of book value at the end of June would have declined by a significant 21.3 percentage points in US dollar terms in just the third quarter alone. In a September 19th article, Barron's commented on the significant underperformance of the discount to book strategy, writing "Seven of the ten funds with the lowest average price-to-book value below one in the small cap value fund category are down by double digits in the past year, compared with just a 2.75 percent loss for the category. Five of those, including former stars Aegis Value… have dived about 25 percent." The poor performance of energy and materials stocks appears to be principally responsible for the relative underperformance of the discount to book strategy. Comprising a hefty 42 percent and 17 percent, respectively, of all North American stocks trading at less than 80 percent of book value, energy and materials equities both dropped substantially over the last several months as commodity prices surrendered additional ground, compounding declines in late 2014.

Oil, for example, plunged 24.2 percent during a highly volatile third quarter which included a 27 percent three-day rally in late August that was reportedly the strongest three-day gain in nearly 30 years. Industrial metals also fared poorly in the quarter, with copper losing 10.5 percent and zinc dropping 15.9 percent. The recent commodity declines have been occurring amid increased investor fears of a hard landing in China, where the rate of economic expansion has been slowing from its previous blistering pace, leaving many investors questioning the sustainability of Chinese driven global commodity demand. The Caixin Manufacturer's Purchasing Manager's Index, a gauge of Chinese manufacturing activity, declined to 47.3 in August form 47.8 in July, hitting a six-year low. Chinese stocks also plunged during the quarter as economic confidence faltered, with the Shanghai Composite falling 29 percent, including a 14 percent drop in July, reportedly the worst monthly performance for the Shanghai Composite since August of 2009. The Chinese government reacted to the plunge with a slew of policy responses, some of which were heavy-handed and appeared to aggravate the situation. One approach involved implementation of a sudden but modest currency devaluation that left many contemplating future Chinese appetite for commodities.

While China struggled, domestic economic statistics appeared to improve early in the quarter, leading Federal Reserve officials to embark on a verbose campaign to convince investors that a September interest rate hike was imminent. As a result, the U.S. dollar continued to hold strong gains made in recent months against other currencies and precious metals prices softened, with gold dropping 4.9 percent over the quarter, and silver dropping 7.7 percent. By quarter-end, investor sentiment had worsened to the point that the broad commodities complex was in panic-liquidation mode as trading giant Glencore plunged nearly 30 percent in a single day, wiping out $4 billion in market cap on investor fears it was taking losses in commodities and was experiencing a Lehman-style leverage-driven meltdown. By the end of the first week of October, fears of Glencore's pending collapse receded and Glencore shares have since recovered more than their entire loss.

The Aegis Value Fund, with its focus on companies trading at discounts to book value, continues to hold outsized positions in the energy and materials stocks that constitute such a big portion of our discount to book investment universe. These two sectors, comprising 15.5 percent and 30.8 percent of Fund assets, respectively, account for just 4.6 percent and 3.1 percent of the broader Russel 2000 Value Index. With commodity prices down significantly, the Fund's energy and materials holdings negatively impacted third quarter returns by 6.1 and 10.6 percentage points, respectively. Drops in commodity prices were by far the largest source of fundamental deterioration within our investment portfolio during the quarter. Although energy and industrial commodity prices remain near recent lows, fortunately precious metals prices have rebounded in the first few weeks in October after the Fed chose not to increase rates in September amid increased market volatility and recently softening U.S. economic data.

Today, with commodity prices near their lowest levels in the last 11 years, and with the closure of several commodities-related investment funds featuring prominently in the financial press, we believe we are likely close to a bottom in the price of our commodity-related holdings. Many commodities now trade at levels beneath our estimates of their long-term production costs and we are seeing evidence that supply is starting to recede, which should lead to improved pricing. In the case of energy, we are also seeing evidence that world oil demand is picking up momentum just as US shale oil production is rolling over. We have concluded a future recovery is likely, but will take some time and patience. While it's not easy to endure the extraordinary price volatility while we await improved conditions, we continue to persevere, comforted by our belief that the Fund's energy and material investments overall have both the balance sheet strength to survive a prolonged downturn and the strong potential for outsized future share gains when conditions do begin to improve.

While many materials-related stocks are directly exposed to a Chinese capital investment slowdown, we believe a large proportion of our holdings are somewhat more insulated from this exposure. Of the 30.8 percent invested in the materials sector at quarter-end, approximately 7.6 percent is invested in pulp and paper companies **Mercer International (MERC)** and **Resolute Forest Products (RFP)**. These companies are both generating nicely positive levels of cash flow at today's pulp and paper prices and we are optimistic that pulp and tissue fundamentals at these companies will likely improve with time as world tissue demand continues to grow rapidly on the strength of increased per-capita paper materials consumption in Asia and in other developing regions. We do not anticipate this strong trend to be highly impacted by any pending slowdown in Chinese capital spending, and in fact, could improve as China pivots its economy towards greater consumption. Given that paper companies require a nearby fiber source, little of which was available in China, the paper industry has not been subjected to the same level of Chinese-related overbuilding that has impacted other materials-related industries. Both of these companies are also experiencing the benefit of falling costs as the Canadian dollar has dropped, positively impacting margins.

Another 4.1 percent of the Fund's materials sector holdings at quarter-end were domestic steel-related businesses **Olympic Steel (ZEUS)** and **Universal Stainless & Alloy Products (USAP)**. Olympic Steel is a metals distribution business which has been under significant margin pressure as plunging hot-rolled steel prices have led to inventory holding period losses that have depressed margins. Universal Stainless, a manufacture of specialty steels, is significantly more insulated from imports than the commodity steel sector. Its primary aviation-related end market has continued to be strong. Yet for Universal Stainless as well, declining nickel and molybdenum prices are pressuring company margins as the company experiences inventory holding period losses for specialty steels that are rich in these materials. Universal Stainless customers have also slowed their reorder rate as they sought to purge their own inventories, which has led to lower revenues at the company. We believe that in both of these cases, company fundamentals should materially improve should commodity prices just stabilize. Better business conditions are not necessarily predicated upon a big recovery in the price of steel, nickel or molybdenum.

The balance of the Fund's materials holdings are in metals and mining, with nearly 13.8 percent of Fund holdings in precious metals mining concerns relatively unexposed to Chinese capital spending declines, with the balance of 5.4 percent allocated to base metals mining companies **Nevsun (NSU)** and **Amerigo (ARG.TO)**. Nevsun has a lowest cost quartile copper/zinc mine in Africa, but cash represents approximately 70 percent of the market capitalization of the debt-free company. Net of Nevsun's cash, our Fund's true exposure to base metals mining assets is closer to just 2.7 percent of Fund assets. Clearly, these base metals positions are more exposed to Chinese infrastructure and capital spending plans. We would note however, that we are now seeing regular announcements of copper supply being shut-in. According to Scotiabank, total global copper inventories have dropped the last several months and are closing in on three-year lows.

Despite the decline in commodity prices, which clearly pressures company fundamentals, the news out of our energy and materials portfolio companies is not all negative. For example, **McDermott International (MDR)**, one of our largest holdings in the energy space, recently received the biggest order out of the Middle East in its company history, the magnitude of which materially improves the fundamental complexion of the company for the next several years. Despite the contract win, McDermott continues to trade near the lows of the 2008-2009 financial crisis, levels from which it had increased approximately four times by 2011. The Fund maintains a 3.6 percent position in McDermott shares.

Operations at our metals and mining holdings have been proceeding well, with a continued slate of strong exploration and development drilling result announcements. Good drilling results are important in that they often give rise to valuable resource extensions that can substantially improve mining project returns. Companies recently announcing good drilling results include **Nevsun (NSU)**, **Lake Shore Gold (LSG)**, **Coeur Mining (CDE)**, **Avino Silver & Gold (ASM)**, **Alamos Gold (AGI), and Goldquest(GQC.V)**.

More broadly, we have also seen an uptick in both insider purchases and corporate share repurchases at many of our Fund companies, generally indicating that the management teams closest to the business believe that stock valuations are cheap. In recent months, we have seen insider buying at **Universal Stainless Alloy Products (USAP)**, **Delta Apparel (DLA)**, **WPX Energy (WPX)**, **Alamos Gold (AGI.TO)**, **Coeur Mining (CDE)**, and **Luby's (LUB)** while company share repurchases were announced or executed at **Resolute Forest Products (RFP)**, **Delta Apparel (DLA)**, **Olympic Steel (ZEUS)**, **Echelon Financial (EFH.TO)** and **Superior Industries (SUP)**.

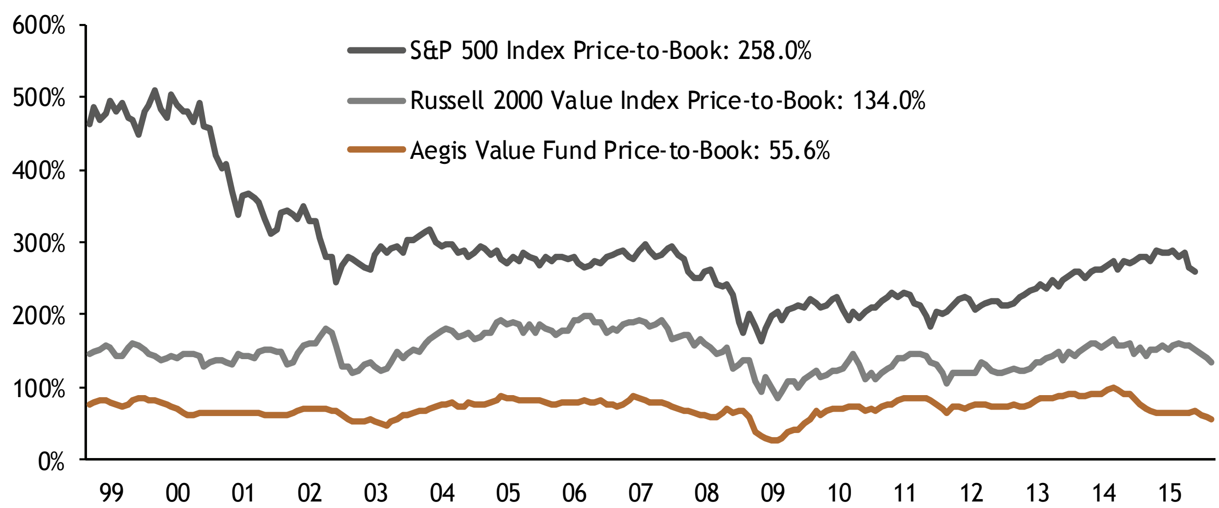
Most negatively affecting third quarter Fund performance was the decline in **Alliance One International (AOI)**. Shares in this global tobacco leaf dealer, our largest Fund position, dropped by 14.76 percent in the third quarter, negatively impacting Fund returns by approximately 2.2 percentage points. In contrast to Alliance One's declining share price, company fundamentals appear to be improving and tracking to our expectations. Large tobacco companies are continuing the trend of outsourcing previously internalized leaf procurement and processing functions to the leaf dealers and the recent oversupply of tobacco leaf worldwide is abating. We currently anticipate Alliance One to report further fundamental earnings improvements over the next several quarters as the company begins to show financial benefits from the sale of lower cost Brazilian tobacco leaf, courtesy of the falling Brazilian Real. Lower green leaf prices should also free up working capital at the company to facilitate debt reduction. Furthermore, the company should also begin to see the benefit from sizeable restructuring efforts recently implemented to cut a material \$30- \$35 million of annual costs from this \$175 million market-cap company. Alliance One continues to be our largest position, accounting for 13.1 percent of Fund assets at quarter-end.

Our biggest purchase in the quarter was **Alaska Communications Systems Group (ALSK)**. The company is one of only two major telecommunications providers in the state of Alaska, owning substantial telecommunications infrastructure including one of just two undersea cable networks linking Alaska with the U.S. mainland. The \$120 million market-cap company has debt of \$192 million which is partially offset by approximately \$46 million in corporate cash. The company recently closed on a new, \$100 million senior credit facility, extending the company's first maturity to 2018. With an estimated \$56 million of EBITDA expected in 2016, the company has one of the lowest leverage ratios (debt/EBITDA) in the telecom business. In recent years, Alaska Communications was burdened with debt, and was forced to eliminate its dividend. Recently, however, the company substantially reduced its debt after successfully selling its minority interest in Alaskan wireless business AVN to majority owner GCI, its primary competitor in the geographically isolated state. With infrastructure in place to serve approximately 80 percent of Alaska's target corporate market, and with just a 20 percent market share, Alaska Communications has the opportunity to deliver strong, high-margin revenue growth. While competitor GCI may now be straddled with significant capital expense required to keep its wireless networks competitive with AT&T and Verizon, we believe Alaska Communications has put itself in a position to win additional wireless backhaul service contracts from these same national carriers, who may now be more reluctant to rely on a competitor for service. In the month of July alone, the company won nearly $7 million of annualized revenues in new backhaul and other commercial business with margins we believe are in excess of 50 percent. We also surmise that the company can grow its business segment, currently 50 percent of its revenue, at an 8 to 10 percent annual clip over the next several years. Alaska Communications trades at a modest 4.7 times estimated 2016 EBITDA and at just 80 percent of book value, which we believe is understated given the long-lived nature of telecom infrastructure. We believe shares have the strong potential to increase in price over the next several years as increased revenues drive more cash flow. At quarter end, Alaska shares comprised 3.2 percent of Fund assets.

In early August, **Tecumseh Products Company (TECU)**, one of the Fund's largest positions, received a $5.00 tender offer from an investor group comprised of Mueller Industries (MLI) and private equity firm Atlas Holdings. The offer represented a nearly 150 percent premium to the last trade prior to the offer. While we had been hopeful that the newly constituted Board of Directors and management at Tecumseh would successfully turn the company around in a manner that would deliver greater long-term value to shareholders, the Board instead chose to sell the company. We decided to tender our shares and in recent weeks have taken the opportunity to reinvest the proceeds among several stocks such as Alaska Communications which have been trading at levels that we believe also offer great value. The tender of Tecumseh stock was the largest Fund disposition in the quarter, and the increase in the value of the position through disposition added an estimated 4.34 percentage points to third quarter Fund returns, making Tecumseh the Fund's largest positive contributor.

Figure 2:

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 09/30/2015)

While it is never easy to predict when we will see a turn in portfolio performance, we do know that Fund portfolio valuations have rarely been as low as they are today, both on an absolute and relative basis. As can be seen from **Figure 2**, the weighted average price-to-book of our Fund portfolio has declined to 55.6 percent at quarter-end. In the Fund's 17 year history, its valuation level has only been lower on two short occasions - in early 2003 and during the 2008-2009 financial crisis. In both cases, subsequent Fund returns were extraordinarily strong. Fund valuations are also at the biggest discount to the broader S&P 500 in seven years. With S&P 500 trading at 258 percent of book value, its component companies must consistently deliver 4.6 times the return on equity as companies in the Fund to achieve the same shareholder return – a tall order at best. With growth stocks, according to

Bank of America, now having reportedly outperformed value stocks for 62 months, the longest stretch of outperformance ever (the prior record was from April 1937 through September 1940), we believe a turn in our favor is overdue.

While remaining invested in an underperforming strategy can tax one's patience, we intend to hold to the investment course we have set. We will continue to remain methodical, selective and disciplined about the investments we are making. Securities in the Fund were originally chosen on the basis of their unusually low valuations. Today, with valuations on many of our holdings now materially lower, we believe the portfolio has the potential to deliver unusually strong returns in the months and years ahead. We believe the strong fundamentals of our holdings should eventually be reflected in better share prices, and shareholders able to endure today's current volatility are likely to be well rewarded. As of September 30th, Fund employees had in excess of $15 million in Fund shares. Employees have recently purchased additional shares of the Fund. We appreciate your co-investment with us. 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 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 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., WPX Energy Inc., Resolute Forest Products Inc., Nevsun Resources Ltd., McDermott International Inc., Echelon Financial Holding Inc., Alaska Communications Systems Group Inc., and Mercer International Inc. As of September 30, 2015, the stocks represent 13.1%, 7.2%, 5.4%, 4.7%, 4.6%, 3.9%, 3.6%, 3.3%, 3.2%, and 3.0%, 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 Glencore, Lehman, GCI, Mueller Industries, and Atlas Holdings, 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. **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. Ca**sh Flow:** A revenue or expense stream that changes a cash account over a given period. **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. **Shanghai Composite Index:** A capitalization-weighted index tracking the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange. **The Caixin Manufacturer's Purchasing Manager's Index:** A composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as an leading indicator for the whole economy. **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.

An investment cannot be made directly in an index.