AEGIS Value Fund

Portfolio Manager's Letter
Quarter Ended September 30, 2016

October 28, 2016

Dear Aegis Investors:

Table 1: Performance of the Aegis Value Fund as of September 30, 2016

			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	9.41%	59.94%	40.53%	-2.15%	11.37%	6.19%	9.72%	NA
Aegis Value Fund Cl. A at NAV	9.39%	59.78%	40.27%	NA	NA	NA	NA	-4.15%
Aegis Value Fund Cl. A-W/Load	5.32%	53.73%	35.01%	NA	NA	NA	NA	-5.56%
Russell 2000 Value Index	8.87%	15.49%	18.81%	6.77%	15.45%	5.78%	7.77%	4.32%

** 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 1.53% and 1.78%, respectively. The Fund Class I and Class A 's net annualized expense ratio, after fee waiver, is 1.50%, and 1.75%, respectively. Under the waiver, the Advisor has contractually agreed to limit certain fees and/or reimburse certain of the Fund's expenses through 4/30/2017.

The Aegis Value Fund delivered a third consecutive quarter of strong returns in the third quarter of 2016, outpacing the Russell 2000 Value benchmark by half a percentage point. Solid performance by the Fund's energy and materials investments, as well as gains by the Fund's largest holding, **Alliance One International (AOI)**, drove Fund returns in the quarter.

Oil was flat, but the Fund's energy stocks went up.

Energy stocks, representing approximately 16.8 percent of Fund assets at quarter-end, were responsible for three percentage points of the Fund's quarterly return. Our energy holdings performed well despite WTI crude and natural gas prices declining by a modest 0.2 percent and 0.6 percent, respectively, over the quarter. Recently, OPEC has appeared to be taking steps towards limiting production growth, perhaps reasserting itself in its traditional role in balancing production with world demand. Fortunately, our energy investment thesis does not necessarily require OPEC cooperation for the market to balance at higher energy prices and drive competitive equity returns. Supply growth from delivery of long-lead, conventional, non-OPEC projects initiated before prices dropped in 2014 is likely to soon abate, resulting in a slow-down in supply additions. Furthermore, with world demand of 96 million barrels/day in 2016 forecast to increase by one-to-two percent amid three-to-five percent depletion rates on existing conventional production, we believe demand may soon overwhelm supply, driving prices higher despite prospects for increased production out of the U.S. unconventional basins. Should OPEC successfully manage to reduce production within the cartel in any meaningful way, the oil price rise could even be more dramatic.

Most positively impacting performance in the quarter was the Fund's position in **WPX Energy (WPX)**, which climbed 41.7 percent, adding approximately 2.4 percentage points to Fund returns. The $4.5 billion market-cap oil focused exploration and production company has repositioned itself in recent years since mid-2014 when Rick Muncrief assumed the role of CEO, shedding non-core positions in the Powder River Basin, the Marcellus and the

Vaca Muerte shale in Argentina, and acquiring RKI, a $2.75 billion acreage package in the Permian Basin, arguably the highest quality shale-oil basin in North America. Although the RKI acquisition appeared to be a positive step in WPX's efforts to transition the company from natural gas to oil, the company subsequently came under financial pressure a few months after deal completion as oil prices plummeted and investors grew concerned with the company's leverage and liquidity. Fortunately, the company was able to liquidate several non-core assets, selling its Piceance natural-gas rich acreage for $900 million and its San Juan midstream gathering system for $300 million, which alleviated investor anxiety. Furthermore, as oil prices rebounded in the first half of 2016, driving shares higher, the company raised an additional $560 million of capital through an equity offering, which reduced debt (net of cash) to the roughly $2 billion level – now a manageable 3.5 times estimated 2017 EBITDA. In addition to its balance sheet strengthening activities, the company has also materially improved its drilling efficiencies and well-completion techniques. The efforts result in the potential for materially higher production growth and improved profitability over time, even at current energy prices. The RKI acquisition added years of drilling inventory and firmly established WPX in the Permian Basin at a cost of approximately $20,000 per acre, a price that looks to have been a bargain compared to more recent Permian transactions such as RSP Permian's announced acquisition of Silver Hill at a price of approximately $40,000 per acre. At these more recent per acre transactions values, we believe WPX is worth a 50-60 percent premium to today's price. While we have sold a portion of our WPX holdings as prices rose, at quarter-end WPX shares continued to comprise 6.3 percent of Fund assets.

The Fund's precious metals mining investments continued to move higher.

Outside of energy, the Fund's materials-related stocks also performed well in the quarter, adding approximately 4.3 percentage points to Fund returns. Within the materials sector, our precious metals mining investments, which have been delivering strong Fund returns all year, continued the trend, comprising nearly the entirety of the quarterly contribution from our materials holdings. This performance was particularly notable in that it was achieved in the context of gold's 0.5 percent drop over the quarter and a 4.4 percent decline in the NYSE Arca Gold Miners Index. As our metals and mining-related holdings appreciated in value, we have continued to use the opportunity to trim back positions, often reallocating a portion of our sales proceeds into other precious metals mining stocks trading at better valuations.

The Fund's largest disposition in the quarter was **Coeur Mining (CDE)**. Coeur shares have recovered remarkably in 2016, up 377 percent year-to-date through September 30. At mid-year, as index rebalancing drove passive demand for Coeur shares higher, we took the opportunity to liquidate the vast majority of our position, believing the shares had become quite fully priced in the context of $1,300 gold and $19 silver. We also sold our stake in **Alamos Gold (AGI)** as the stock price climbed and valuations there began looking stretched as well. In both cases, as sellers we found ourselves in the company of corporate executives who were personally selling shares in their enterprises. In the case of Coeur, the company also announced in September that it was planning to raise an additional $200 million in equity capital via an at-the-market stock offering. While Coeur indicated the purpose of the capital raise was to reduce debt, corporate debt levels at the company were already quite manageable, leading us to suspect that management did the offering because they viewed their equity as overvalued, and wanted to bulk up liquidity for potential future acquisitions. Overall, proceeds from the disposition of these two Fund positions aggregated to approximately $10 million. This capital has now been substantially redeployed into other investment opportunities that better meet our deep-value, risk/reward criteria.

Overall, at quarter-end, the Fund continues to maintain investment in 16 precious metals mining companies, comprising a now somewhat smaller 17.8 percent of Fund assets. We remain convinced, however, that these remaining precious metals mining investments not only generally trade at low risk-adjusted valuations based on today's metals prices, but also offer very strong optionality to higher precious metals prices, helping to insulate our portfolio from potential tail-risk scenarios of rapidly accelerating inflation.

Today, we believe these inflationary risks are clearly on the rise, courtesy of the increasingly unconventional monetary policy now employed at the world's central banks. In mid-October, according to Bloomberg, the world's ten largest central banks held $21.4 trillion of assets, an amount that is up nearly 10 percent so far in 2016. Asset growth at these Central Banks, achieved through money printing, has accelerated significantly this year, as the growth rate in each of the two previous years had been under 3 percent. Incredibly, these top 10 central banks have now expanded their balance sheets by a massive 265 percent over the last 10 years.

Watch out for the income-related securities that have been so steady… Interest rates can go up, too.

These unconventional balance-sheet actions taken by the world's central banks in recent years have led to material distortions in the investment landscape that substantially increase risk for unsuspecting investors now traversing the terrain. These distortions are perhaps most visible in the bond market, where central bank buying has driven approximately $19 trillion of bonds, equivalent to a massive 24 percent of the world-wide bond market, to negative yields. The prices of dividend-paying equities, including real estate investment trusts (REITs) and utility stocks have been pushed higher by the tailwind of declining rates which has been forcing investors out on the risk curve in the hunt for yield.

Furthermore, interest-rate sensitive bonds and dividend paying securities have shown strong, steady performance during recent periods when the broad equity market has been weak. As a result, these securities have become a favorite of investors for their consistent price increases and low volatility. Consequently, we believe these securities are now heavily owned in retirement and "widow & orphan"-type accounts in order to provide stable income. Some institutional investors employing a tactic known as "risk parity" have in recent years taken the approach a step further, leveraging-up bonds and income-related equities with margin debt in conjunction with conventional equity investments in an effort to obtain portfolios with higher returns and less volatility. We understand that as much as $600 billion of assets may today be managed utilizing various kinds of risk parity strategies.

While investors in interest rate-sensitive bonds and dividend paying stocks have been receiving steady returns with low volatility in recent years, we believe inadequate focus is being given to the risk inherent in the sky high valuations many of these securities trade at today. For example, according to a recent Associated Press article, utility stocks in the S&P 500 were trading at more than 21 times their earnings per share in July, well above their recent 10-year average of 15 times. Bonds trading at such high levels that interest rates are negative should also be a wake-up sign that valuations are pushing the bounds of sanity. Should central banks slow or reverse their asset purchases and interest rates increase by just 100 basis points, investors in U.S. domestic bonds are likely to experience as much as $2.4 trillion in aggregate portfolio losses on the approximately $40 trillion of domestic bonds outstanding, not to mention the additional potential losses on interest rate sensitive equities or international bonds. Losses of this magnitude have not been seen since the 2008-2009 credit crisis. In the third quarter we witnessed some slight softness in the market for these interest-rate sensitive securities as the yield on the 10-year Treasury climbed from 1.47 percent to 1.59 percent. The Dow Jones REIT Total Return Index lost 1.30 percent over the quarter, while the Philadelphia Stock Exchange Utility Index lost 6.46 percent. We believe these losses are just a tiny taste of trouble that is likely to come to these income-related securities in the future, and we hold negligible REIT or utility exposure in the Fund today.

Caution is also warranted with ETFs and index funds… Passive management today may be in a bubble.

In the 40 years that have transpired since John Bogle launched the first S&P 500 Index Fund, the industry has grown dramatically. The growth has been driven by an investment pitch that holds certain appeal in its simplicity: Active managers are overpaid and, on average, underperform (typically in comparison to monkeys or dartboards). On the contrary, passive indexing provides the opportunity to own the market as a whole, with strong liquidity, instant diversification, tax benefits and low fees— elegantly freeing investors from the pointless hassle of ever again having to contemplate how to allocate capital to particular equities or managers in the future.

Bolstering the case for index investing, in recent years active managers, on the whole, have not been performing well against the Indexes. The Wall Street Journal just reported that in the year ended June 30, 2016, 85 percent of large-cap stock funds, 88 percent of mid-cap funds, and 89 percent of small cap funds failed to beat their respective indices: The S&P 500 Index, the S&P Midcap 400 Index, and the S&P Smallcap 600 Index. Over five and ten-year trailing periods, the comparative results for active managers against the indices were reportedly slightly worse. It is little wonder that investors have, according to Morningstar, added $1.3 trillion to passive index mutual funds and exchange traded funds in the three years through August 31, 2016, while pulling $250 billion from active managers. Passive investing has been rapidly gaining share from active management, with passive index and exchange trading funds (ETFs) now comprising almost 30 percent of total mutual fund and ETF assets. Passive's market share has doubled in the last 10 years, and actually increased by 8 times in the last 20 years, according to the Investment Company Institute. When some active managers who are, in fact, closet indexers are added into the equation, we are confident that effective passive market share is even higher.

Today, not only individual investors, but institutional investors as well have been moving en masse to passive management. According to Callan Associates, employer-sponsored 401(k) styled plans now have 25 percent of their assets in index funds, up from 19 percent in 2012. Public pension plans in 2015 had 60 percent of their U.S. stock allocations indexed, up from 38 percent in 2012, according to research firm Greenwich Associates. Even the central banks are getting in on the action, with the Swiss National Bank and the Bank of Japan (BOJ) buying passive equity indices with the proceeds of their currency printing. The BOJ has been buying at such a pace that by the end of 2017, it is projected to be the largest shareholder in 55 of the companies in the Nikkei 225 Index.

We suspect passive index investing's rapid growth in market share is leading to financial market imbalances that put investor capital at increasing risk. Steven Bregman, co-founder of $5.9 billion investment firm Horizon Kinetics, has done significant work on the emerging issues with passive index investing. Bregman recently covered the topic of active investor index underperformance at a Grant's Conference in early October, saying: *"In the past two years, the most outstanding mutual fund and holding company managers of the past couple of decades, each with different styles, with limited overlap in their portfolios, collectively and simultaneously underperformed the S&P 500. We're talking ten to 20 percentage points in a given year. There is no precedent for this. It's never happened before. It is important to understand why. Is it really because they invested poorly? In other words, were they the anomaly for underperforming – and is it reasonable to believe that they all lost their touch at the same time, they all got stupid together? Or was it the S&P 500 that was the anomaly for outperforming?"*

Specifically we have been growing increasingly concerned that passive investing may have morphed over the years into a kind of pyramid/ponzi finance system in which new money pushes valuations higher, attracting ever more money and subjecting continuing participants to increasing levels of systemic risk. Evidence of Index overvaluation is clearly mounting. One study by Jeffrey Wurgler, professor of finance at New York University, found that between 1990 and 2005, stocks added to the S&P 500 Index increased by nine percent upon index inclusion as many new passive investors rush in to buy the stock. Another study was done last year by S&P Capital IQ looking at the valuations of stocks within the Russell 2000 Index of small-cap stocks versus stocks with similar market capitalizations that were not in the Index. They found that Russell 2000 Index stocks were valued at a massive 61.9 percent price-to-book premium to stocks of similar market capitalization that were not in the Index. Remarkably, this premium had increased significantly from just 12 percent in 2006. In our view, with the indexing herd driving valuations higher, it is an increasingly dangerous time to be a passive investor.

Passive index funds typically allocate capital into an underlying index of stocks proportionately based on market capitalization, making no attempt to direct or optimize capital allocation based on any company's management, growth outlook, capital efficiency or earnings potential. Instead, passive investing is, at its core, a parasitic strategy that relies on a robust pool of active managers who aggressively work to make these differentiations. Passive strategies work best when passive investors are a small portion of a market dominated by active managers. However, with a 30 percent market share today, we believe passive investing has surged well past its effective equilibrium and is now driving economic mal-investment, morphing markets, and creating inefficiencies and volatility as stocks are increasingly bought and sold together as baskets of securities with little regard for each stock's underlying fundamental prospects.

Increased indexing market share creates a great environment for remaining active managers to outperform.

Fortunately, the remaining active managers have the latitude to look at company fundamentals and allocate capital to opportunities judged most effective at generating profitable returns. We can avoid the overvalued index-fund favorites with poor fundamentals, and instead focus our hard-earned capital on deeply undervalued equities that can offer the best risk/reward ratios. When companies are added to indices, such as Coeur Mining, driving valuation levels to much riskier highs, we can sell out to the index buyers. When companies with good fundamental prospects plunge because they are being tossed out of an index, or because they are being sold as part of some ETF-related basket of securities, we can take advantage of the technical selling to acquire shares cheaply.

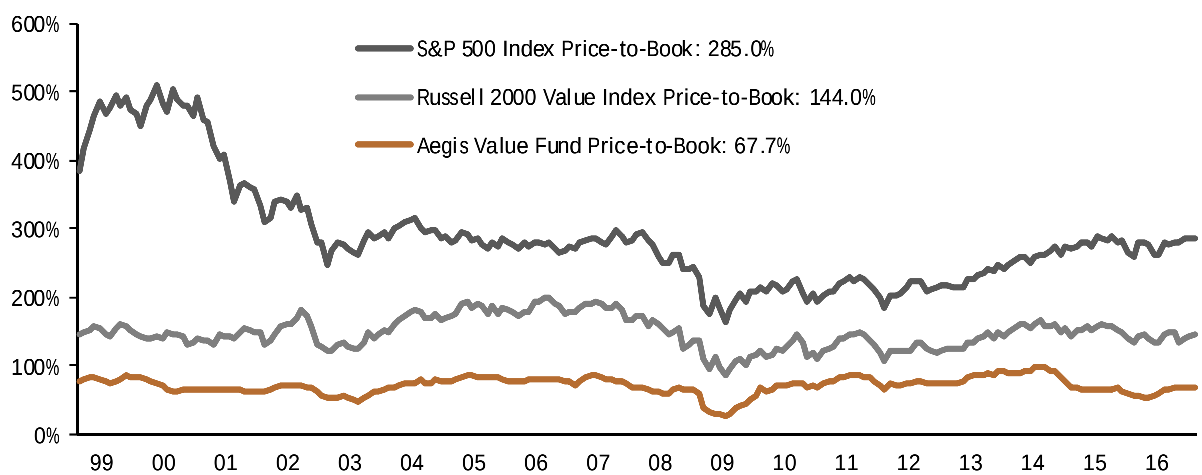
For example, in the case of **Delta Apparel (DLA)**, we liquidated a portion of our long-term holdings in this active-wear apparel company early in the third quarter after the stock was added to the Russell 2000 Index and had gained more than 50 percent for the year. Later in the quarter, however, at least one large seller emerged just as the technical index buying of Delta Apparel was slowing down, resulting in a significant share price decline. By quarter-end, the stock had dropped 27 percent for the quarter, and almost 40 percent from its high. While Delta Apparel was the position that most negatively impacted the Fund in third quarter, lowering the return by 1.0 percentage point, we found little evidence that fundamentals at the company materially changed through this entire period. In fact, now trading in the $15-16 range, we believe the shares have reached a sufficiently large discount to begin re-accumulating shares. With actions such as the decision to transition textile operations from North Carolina to lower-cost Honduras, further investment aimed at lowering manufacturing costs in Honduras and Mexico, and significant growth projected for its increasingly popular "Salt Life" brand, we believe Delta Apparel has the ability to generate annual earnings of approximately $2.50 per share starting in mid-2017. We also suspect management will resume its corporate buyback program, given that shares trade at just six-to-seven times this forward earnings level. At quarter-end, Delta Apparel comprised 3.0 percent of Fund assets.

Rather than invest in well-known, overvalued, index-pumped securities, as contrarians we prefer to focus on equities that are a little off the beaten path. Securities orphaned by the capital markets, and other special situations that are either misunderstood, out of favor, or are out of the spotlight can often be fruitful opportunities. The bankruptcy process can be a fertile hunting ground for these kinds of opportunities. For stocks emerging from bankruptcy, non-fundamental, technical selling by former bondholders often depresses pricing. In addition, few analysts have the incentive to cover the companies, which often lack a set of easy-to-comprehend financials given all the unusual items that typically impact company financial reporting during bankruptcy.

Verso Corporation (VRS), our Fund's largest purchase in the quarter, is a nice case-in-point, having emerged from bankruptcy earlier this year having equitized $2.8 billion of pre-petition debt. Verso manufactures coated mechanical paper found in higher-end magazines, catalogs, corporate brochures and retail inserts as well as produces specialty papers used in the production of labels, flexible packaging and other technical applications. The $200 million market-cap company currently trades at about a third of book value, and emerged with pro-forma debt, net of cash, of only approximately $320 million. Cash flow at the company has been falling in recent years as the secular decline of publishing has led to significant overcapacity and pricing deterioration in the coated paper business. Yet the company maintains a strong market share and a fairly competitive low cost manufacturing position. Its specialty paper segment is also exhibiting growth. Verso continues to generate cash flow, with expected EBITDA in 2016 of $190 million. Furthermore, we believe there is a clear path to cash flow stability in the next 12-to-24 months as the company improves labor costs and enhances operational performance at its mills, which have been suffering recently on account of deferred maintenance expense. With the company trading at just 2.75 times management's 2016 EBITDA estimate, and 6 times its free cash flow, it looks like a worthwhile risk/reward ratio to us. At quarter-end, Verso shares comprised 2.9 percent of Fund assets.

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 09/30/2016

Overall, as the prices of many of our holdings have appreciated this year, we have looked carefully at valuation and risk, and where appropriate, have sold and recycled our capital back into an emerging batch of equities trading at more opportunistic levels. Resultantly, as can be seen in **Figure 1**, the Fund's price-to-book value ratio remained roughly flat in the quarter at 67.7 percent, despite the Fund appreciating by 9.4 percent in the quarter. You can also see that the Fund's portfolio trades well beneath the price-to-book ratio of the broader indices. We intend to remain methodical, selective and disciplined about the investments we make, and the investments we exit. As a result, we continue to own a portfolio of securities that we believe are as deeply undervalued as any in the market today. Aegis employees and their families own in excess of $20 million of Fund shares. We remain strongly focused on risk management. Should you have any questions, our shareholder representatives are available 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 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., WPX Energy Inc., Resolute Forest Products Inc., Alaska Communications Systems Group Inc., Geodrill Ltd., McDermott International Inc., Dalradian Resources Inc., Endeavour Mining Corporations., Delta Apparel Inc., and Fly Leasing Ltd. As of September 30, 2016, the stocks represent 11.0%, 6.3%, 4.7%, 4.4%, 3.9%, 3.8%, 3.5%, 3.4%, 3.0%, 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. 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. **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. **Basis Point:** One 100th of one percent. **NYSE Arca Gold Miners Index (GDM)**: a modified market capitalization weighted index comprised of publicly traded companies primarily involved in the mining of gold and silver in locations around the world. **Free cash flow (FCF)**: represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base. **Down Jones Equity REIT Total Return Index** is comprised of REITs that directly own all or part of the properties in their portfolios. **Philadelphia Stock Exchange Utility Index** is a capitalization-weighted index of 20 utility companies involved in the production of electrical energy. **S&P Small Cap 600:** An index maintained by the S&P Index Committee. It contains companies with market caps in the range of US$ 300 million up to US$1.4 billion and with public floats of at least 50%. **S&P MidCap 400 Index** is a stock market index from S&P Dow Jones Indices. The index serves as a barometer for the U.S. mid-cap equities sector and is the most widely followed mid-cap index in existence. **Nikkei 225 Index** is the leading and most-respected index of Japanese stocks. It is a price-weighted index comprised of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange. The Nikkei is equivalent to the Dow Jones Industrial Average Index in the United States.

An investment cannot be made directly in an index.

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

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