AEGIS **Value Fund**

AEGIS FUNDS

Portfolio Manager's Letter
Quarter Ended December 31, 2011

January 30, 2012

Dear Aegis Investor:

The Aegis Value Fund returned 12.35 percent during the fourth quarter of 2011, underperforming its primary small-cap value benchmark, the Russell 2000 Value Index, which returned 15.97 percent. Reversing the return experience of the third quarter, large-cap stocks underperformed small-caps, with the large-cap S&P 500 and Nasdaq 100 indices delivering returns of 11.82 percent and 6.48 percent respectively. Past performance data for the Aegis Value Fund and the Russell 2000 Value benchmark are presented in **Table 1** below:

Table 1: Performance of the Aegis Value Fund as of December 31, 2011

			Annualized				
	Three Month	Year-to-Date	One Year	Three Year	Five Year	Ten Year	Since Inception*
Aegis Value Fund	12.35%	-3.27%	-3.27%	33.51%	1.22%	7.33%	9.87%
Russell 2000 Value Index	15.97%	-5.50%	-5.50%	12.36%	-1.87%	6.40%	6.08%

** 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 1.48%.

The fourth quarter witnessed a sharp turnaround on the back of a massive October rebound, which actually saw the Dow Jones Industrial Average deliver the third highest monthly gain in its 115 year history. The quarter was marked by continuing concerns over the prospects of forced financial system deleveraging as the European banks struggled with exposures to shaky sovereign European debt. Adding to market volatility, investors struggled to properly price-in the probability of European bank bailouts and the prospect for inflationary European Central Bank money printing as European government leaders held summit after summit. As the quarter progressed, market volatility finally began to subside as panic fatigue appeared to have set-in and better economic news out of the United States improved investor sentiment.

Despite October's rally, investors had little appetite for equities, withdrawing $73 billion from U.S. diversified equity mutual funds in the quarter, according to Lipper. With the painful memories of 2008's declines rubbed raw once again by market declines in the third quarter, investors sought to minimize portfolio volatility by placing $72 billion into money market funds and $67 billion into taxable fixed income during the last three months of the year.

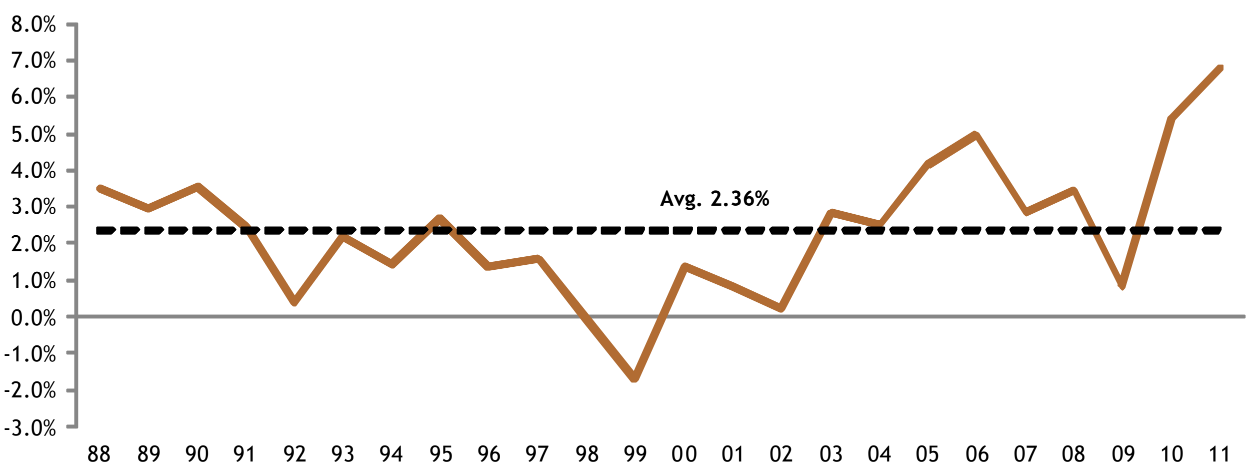
While volatility-adverse investors sold corporate equities and raced into money markets and high-grade fixed income, the corporations themselves, flush with cash, have been hard at work repurchasing their own shares. JP Morgan recently estimated that small public companies actually bought back a massive $22 billion of their own shares in the first 11 months of 2011, surpassing the hefty $13 billion in small-cap share sales required to meet investor redemptions at small-cap funds. Small-cap companies today are in much better financial shape to continue their buybacks, with JP Morgan estimating that net-debt as a percentage of total assets within the small-cap S&P 600 having now dropped to 8.7 percent, down appreciably from a level of 18.4 percent just before the financial crisis. Furthermore, while leverage at small-cap companies is down, the remaining debt is now also significantly more manageable, as corporations have rolled more than $600 billion in bonds and loans into longer-duration maturities since December 2008.

As the year drew to a close, investors seeking safe haven had driven the ten-year Treasury yield down to a miniscule 1.89 percent. With inflation, as measured by the Consumer Price Index, having increased by 3.0 percent over the last 12 months, Treasury investors now appear to be accepting negative real yields and are subjecting themselves to significant interest rate risk. Yields obtainable in short-duration money market funds pose less interest rate risk, yet many of these money funds nominally yield only a couple hundredths of a percentage point in annual interest and offer real yields approaching negative three percent. It is the height of irony that conventional financial media keeps referring to periods of panicked purchasing of these money market funds, Treasuries, and high-grade bonds as "risk-off" days, when unsustainable fiscal U.S. Federal Government deficits approaching 10 percent of Gross Domestic Product per year are funded by a continuing series of unsustainable and possibly highly inflationary Federal Reserve quantitative easing programs.

In stark contrast to the unsatisfying compensation level received today when investing in high-grade fixed income, with its significant exposure to the possible savages of heightened inflation and interest rates, we believe a preferable alternative lies in what conventional financial media is calling "risk assets." As can be seen in **Figure 1**, corporate earnings yields have recently exceeded inflation-adjusted treasury yields by the highest amount in more than 20 years, as the amount of risk premium investors are paid to take-on equity risk has soared. As is seen in **Figure 2**, within the deep value space, the number of stocks on our watchlist ended the year at 430 after spiking significantly from less than 300 a year ago. Within this list, many equities continue to trade at prices that we believe already fully discount a significant degradation of fundamental economic and company-specific conditions. Furthermore, many of these companies would be able to raise prices in an inflationary environment, as well as benefit from the rising values of tangible assets, at least partially offsetting the effects.

Figure 1:

Equity Risk Premium: Calculated as Earnings Yield Less Real 10 Year Yield (10 Year Less Inflation)



Sources: S&P, Federal Reserve, and U.S. Bureau of Labor Statistics

As we monitored Fund holdings during the quarter, we were pleased that fundamental business conditions generally continued to track according to expectations. The biggest exception, which most negatively impacted Fund performance in the fourth quarter, was the decline in shares of **Tecumseh Products (TECUA, non-voting - $5.24 and TECUB, voting - $4.95)**. Tecumseh is a $100 million market-cap refrigeration compressor manufacturer that lost about a third of its equity market value after reporting a surprising $20.7 million loss from operations in the fourth quarter. This loss occurred as the company struggled to keep market share while saddled with uncompetitive copper component costs and escalating Brazilian labor expense. We believe a recovery in share prices from these levels is likely, as management is hard at work on a turn-around. Aluminum components are being engineered into the product line, replacing copper over the next year in a move that should save up to $25 million annually. Management has also indicated that they are working on other headcount and manufacturing footprint adjustments that should further reduce costs.

Fortunately, Tecumseh, with $63 million of debt offset almost entirely by $57 million in cash, has the liquidity to work through a restructuring plan. Furthermore, the company is owed another $60 million in Brazilian tax receivables, which are scheduled to be received over the next few years, and is also fortunate to own valuable excess real estate in Hyderabad, India, which is currently being marketed for sale. We understand that Danfoss recently sold its $500 million revenue refrigeration and compressor business for approximately $200 million, or 40 percent of sales.

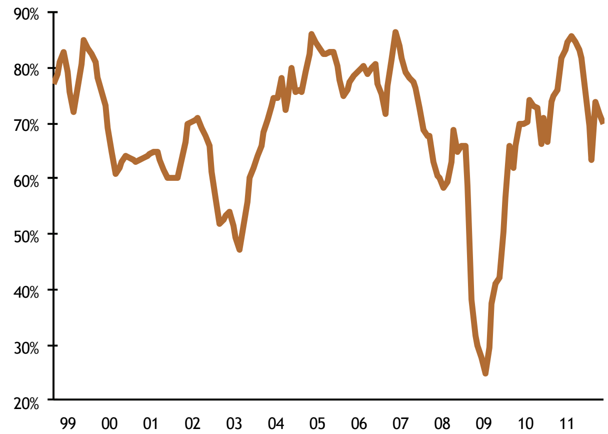
Figure 2:

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

Sources: Stock Investor Pro and Aegis Financial Corp.

Figure 3:

Aegis Value Fund Historical Price-to-Book Ratio



Given that Tecumseh delivered total revenues over the last 12 months of approximately $900 million, we think that a premium to the current $100 million market value is likely in any sale of the company. The decline in shares of Tecumseh negatively impacted Fund performance by approximately 0.90 percent in the quarter, and at year-end, shares of Tecumseh represented 1.7 percent of Fund assets.

On the brighter side, the Fund had several positions that experienced strong gains in the quarter. Most positively impacting Fund performance was the increase in shares of **Aircastle Limited (AYR - $13.82)**, a $1 billion market-cap aircraft leasing company which currently trades at only 75 percent of book value. The company, which has a low level of leverage for an aircraft lessor, currently has a $260 million unrestricted cash balance that may be used to purchase aircraft, pay a special dividend, or repurchase shares. In fact, the company has repurchased 7.6 million shares in the first three quarters of 2011. While annualized current run-rate net income is now approximately $90 million, this run-rate is scheduled to increase by $30 million at mid-year when high-cost interest-rate hedges roll-off. When we back the $260 million of unrestricted and low yielding cash off of Aircastle's $1 billion market-cap, the $740 million balance is only 6.2 times this post-hedge earnings run-rate, indicating that the balance of assets is generating a nice return on the remaining equity at market value. Furthermore, we like the fact that the company has locked-in significant low-cost long-term aircraft funding with the potential to perform well in the case of accelerated inflation, given improved lease residual values under inflationary scenarios. Gains in shares of Aircastle positively impacted Fund performance by 1.42 percent in the fourth quarter.

As oil prices climbed by almost 25 percent during the quarter, several of our energy and oil service stocks experienced significant price rebounds. We took advantage of the renewed investor interest in energy in the quarter to lighten-up on several of our energy holdings, selling over $6 million in shares of GulfMark, Hornbeck, ATP Oil & Gas, and Ensco. The Fund had purchased several of these positions in 2010 as investor panic set-in and the industry languished following the BP Oil Spill and the resulting government federal offshore drilling moratorium. We have generally experienced nice gains on our Gulf energy investments. The notable exception has been ATP Oil & Gas, which has experienced a series of mounting production disappointments and delays resulting in increasing struggles to generate sufficient capital to both meet debt service payments and properly develop prospects. While we continue to believe that significant value may accrue to ATP common equity under certain scenarios, prudent risk management required us to reevaluate our position in the highly levered firm, and we sold the common equity, retaining a small position in the highly discounted ATP convertible preferred stock.

Overall, as can be seen in Figure 3, stocks in the Aegis Value Fund trade at a weighted average 70.1 percent of book value at quarter-end, up slightly from 63.6 percent of book value at the end of the third quarter. These levels continue to compare favorably to the S&P 500 Index of large-cap stocks, which trade at 205 percent of book value, and even look cheap against the Fund's primary benchmark, the Russell 2000 Value Index, which trades at 124 percent of book value.

So far in 2012, the Fund has increased another 6 percent as the markets have continued climbing into January. We continue to hold a diversified portfolio of shares in companies that we believe are valued among the cheapest in the market today. Despite recent gains, the equities market overall still appears to trade at low multiples that continue to discount difficult economic times. We believe that by investing in small-cap value equities, investors will likely be more able to conserve and grow real wealth in the potentially inflationary future than by investing in today's conventional Treasury and high-grade fixed-income "safe-havens." Aegis employees have in excess of $10 million co-invested in the Fund, and I have continued to add to my own holdings of the Fund in the fourth quarter. We continue to take great care to carefully monitor developing risks in the portfolio.

On an administrative note, we are in the process of changing our primary back-office services vendor to US Bancorp Fund Services, LLC., who will soon be handling the Fund's custody, shareholder services, accounting, distribution, and transfer agency work. We anticipate this transition will be seamless for you, and we thank UMB Bank for the years of good service we were provided.

Should you have any questions, our shareholder services reps are available via (800) 528-3780. Should you have any questions at all regarding our Fund's investment approach, you are also welcome to call me personally at (571) 250-0051.

Best regards,

Scott L. Barbee

Scott L. Barbee
Portfolio Manager
Aegis Value Fund

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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.

Risks associated with investing in the Aegis Value Fund include risks associated with the following items: investing in common stocks, value-oriented investment strategies, investing in smaller and mid-capitalization companies, real estate investment trusts, foreign securities and a managed fund. The Aegis Value Fund may invest in smaller companies which involve additional risks such as limited liquidity and greater volatility. 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 or regulatory developments.

Investments in foreign securities involve greater volatility and political, economic and currency risks and differences in accounting methods.

Diversification does not assure a profit or protect against a loss in a declining market.

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An investment cannot be made directly in an index.

The letter refers to eight issues held by the Fund: Tecumseh Products (TECUA, non-voting and TECUB, voting), Aircastle Limited, GulfMark Offshore Inc., Hornbeck Offshore Services Inc., ATP Oil & Gas Corp, ATP Convertible Preferred stock and Ensco PLC. As of December 31, 2011, these stocks represent 1.2%, 0.5%, 5.2%, 0.8%, 2.0%, 0.0%, 0.3% and 0.9% 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. Price to Tangible Book: A valuation ratio expressing the price of a security compared to its hard, or tangible, book value as reported in the company's balance sheet. The tangible book value number is equal to the company's total book value less the value of any intangible assets. **Price to Future Cash Flow:** A measure of the market's expectations of a firm's future financial health. Because this measure deals with cash flow, the effects of depreciation and other non-cash factors are removed. **Basis Point:** One 100th of one percent. **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. **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%. **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. **The Dow Jones Industrial Average:** A price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq. The DJIA was invented by Charles Dow back in 1896. **Nasdaq**: A computerized system that facilitates trading and provides price quotations on more than 5,000 of the more actively traded over the counter stocks. Created in 1971, the Nasdaq was the world's first electronic stock market. **Consumer Price Index:** A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.

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

Fund Distributor: Quasar Distributors, LLC. Quasar Distributors, LLC is affiliated with US Bancorp Fund Services, LLC.