AEGIS **Value Fund**

AEGIS FUNDS

Portfolio Manager's Letter
Quarter Ended December 31, 2012

January 31, 2013

Dear Aegis Investor:

The Aegis Value Fund delivered a robust 7.18 percent return in the fourth quarter, bringing the advance for the year to 25.14 percent. The Fund significantly outperformed the Russell 2000 Value Index, the Fund's primary small-cap value benchmark, which posted a quarterly gain of 3.22 percent to end the year with an 18.05 percent rise. Past performance data for the Aegis Value Fund and the Russell 2000 Value Index are shown in **Table 1** below:

Table 1: Performance of the Aegis Value Fund as of December 31, 2012

			Annualized				
	Three Month	Year-to-Date	One Year	Three Year	Five Year	Ten Year	Since Inception*
Aegis Value Fund	7.18%	25.14%	25.14%	15.87%	7.69%	9.62%	10.85%
Russell 2000 Value Index	3.22%	18.05%	18.05%	11.57%	3.55%	9.50%	6.86%

** 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%.

Broad equity market performance was generally flat in the quarter with the S&P 500 Index of large-cap stocks losing 0.38 percent as domestic fiscal concerns dominated market sentiment. For the full year, the S&P 500 climbed 16.00 percent, driven by the Financial and the Consumer Services Industry Groups, which were up 23.67 percent and 21.98 percent, respectively.

Most positively impacting the Fund portfolio in the quarter was its investment in **American Pacific (APFC - $19.68)**. Shares in the $153 million market-cap chemicals manufacturer moved nearly 30 percent higher during the fourth quarter as the market digested the company's sale of its non-core aerospace propulsion equipment business to Moog at the lofty multiple of nine times EBITDA. Sale proceeds were used by the company to redeem a portion of its high-cost nine percent debt. The remainder of the debt was rolled into bank financing at the materially improved rate of LIBOR +2.25 percent. Furthermore, the company, at the urging of several of its large shareholders, has been taking steps to improve its governance, including streamlining its oversized board. While the share price increase has led to an expansion of the company's valuation multiples, we believe American Pacific, with approximately $40 million of remaining net debt and modest maintenance capital expenditure requirements, still trades at a low multiple of its expected $43 million of 2013 EBITDA. Furthermore, the company may be able to eventually fill capacity at its unused LaPorte Chemicals facility, improving EBITDA by up to $5 million.

The increase in American Pacific shares improved Fund performance in the quarter by approximately 1.24 percent. Additionally, the fund benefitted in the quarter from gains in shares of Alliance One, Dart Group and Sanmina, as well as investments in energy firms Cal Dive, EPL Oil & Gas, and Patterson-UTI. Of note, for the full year 2012, the Fund's energy investments generated an estimated return of 33.4 percent, well in excess of the S&P's Energy Industry Group return of just 2.3 percent. While commodities and other hard assets have underperformed the broad market in recent weeks, we believe that values exist in the segment, and given concerns over emerging inflationary risks, we remain focused on opportunities in commodities stocks, and particularly those in energy.

While fundamental developments and news flow at our companies continued to generally track with our expectations, one notable exception was our investment in Sypris Solutions (SYPR - $4.14). The share price of this $82 million market cap industrial supplier of heavy-duty drive-train components dropped 35 percent on the day the company announced lower earnings after truck manufacturers abruptly reduced production to adjust inventory positions, resulting in a rapid decline in component orders. The Sypris share decline occurred despite having already been priced for difficulty at just 4.5 times EBITDA. After a 45 percent share decline over the quarter, Sypris valuations dropped to a modest 3.5 times multiple to our revised 2013 EBITDA estimate. While the near-term news flow is disconcerting, company fundamentals over the longer-term look significant brighter. With many old trucks on the road today well above the historical average age, we believe a truck replacement cycle is likely to drive a pick-up in demand. Moreover, truck buyers are thought to have delayed their purchases at the end of last year because of domestic fiscal uncertainty and in anticipation of the release of a new generation of more fuel efficient 2014 truck models due out in March. While the longer-term outlook for the company's truck components segment appears intact, Sypris Solutions also has an electronics contracting segment that is also in the midst of a turnaround, with lower margin legacy manufacturing and engineering contracts ending and higher margin cyber defense projects beginning. As a result, we believe there is opportunity for both EBITDA improvement and valuation expansion that together could drive a nice recovery in share price. Downside is well protected with cash, net of debt, of $9 million, or 11 percent of the market cap.

Declines in Sypris shares negatively impacted the Fund's quarterly returns by approximately 1.05 percent. The Fund also took a loss on a small position in MBIA, which was sold in the quarter. Price declines in shares of Tecumseh, which we believe to be temporary and not closely related to fundamental developments, also impacted the Fund in the quarter. Tecumseh, in fact, has been one of the strongest performers for the Fund so far in 2013.

The Fund's biggest sale in the quarter was the partial disposition of our stake in Tesoro Corporation (TSO - $48.69), which we sold along with our shares in Western Refining (WNR - $33.63). Both refinery stocks had experienced significant price gains in recent quarters, appreciating to levels well above book value. As valuations of these refiners appeared increasingly aggressive when compared to both our estimate of normalized cash flows and to refining asset replacement cost, we felt it prudent to lighten-up on exposure to the sector, which had grown to be in excess of seven percent. Furthermore, with new Midcontinent pipeline takeaway capacity now coming on-stream, 2012's high Midcon refining margins are likely to erode as the valuable crude discounts close. As of today, we have completely exited our investments in Tesoro and Western Refining.

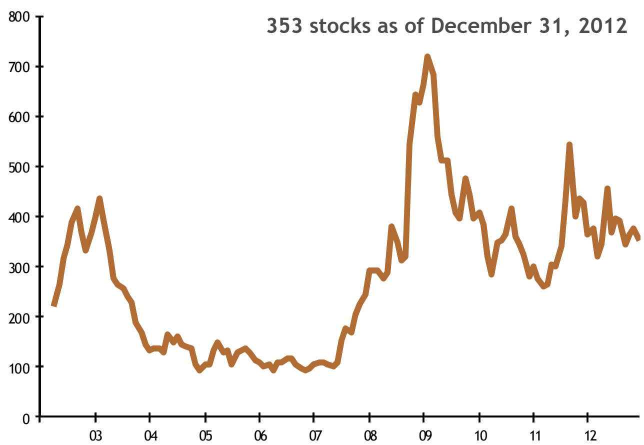
The Fund's biggest quarterly purchase was Cal-Dive (DVR - $1.90). Shares of the $185 million market cap, Gulf of Mexico-focused diving and construction contractor traded down to an almost 70 percent discount to book value following the company's issuance of an $86 million convertible note. The issue was highly dilutive to the company's $3.05/share book value given the low conversion price of just $2.24. While the debt issuance irked shareholders, we believe the company was being pressured by the banks and had limited options as 2012 EBITDA had plunged to just $19 million. With large shareholders exiting in frustration, we realized that bank debt had been brought down to a much more manageable level of approximately $77 million. We also concluded that EBITDA was slated to improve by as much as $40 million in 2013, as last year's abnormally high drydocking expense and hurricane disruptions were not likely to recur and the benefit of a company restructuring was starting to kick-in. Furthermore, Cal-Dive managed to put a vessel that did not generate significant 2012 cash flow on a three-year contract with much better margins. With Gulf of Mexico well permits turning higher and rig counts now increasing due to a resurgence in shelf drilling activity, we believe Cal-Dive's late-cycle business is apt to strengthen. Furthermore, the company is bidding on a New England-based wind farm installation project that could provide significant EBITDA upside over the next few years if obtained.

Over the last few months, equity markets have picked-up measurably as investor sentiment has continued to improve. Retail investors appear to now be venturing out, creeping away from cash and bonds, and back towards equities. According to the Investment Company Institute, U.S.-based non money-market mutual funds just released January inflows of $64.8 billion, the biggest intake in ICI's monthly record going back to 1984. These heavy inflows are signs of a fairly significant course reversal following years of equity outflows. In fact, stock funds worldwide saw investors redeem a massive $215 billion in 2012 alone. Remorse over missed opportunity may certainly be a motivating factor, with Bloomberg calculating that investors redeeming from funds in recent years have now left over $200 billion of market gains on the table.

We believe that many institutional investors, still scarred by the 2008 banking crisis and overly concerned about short-term volatility, tail-risk and black swan-type market events, have also shunned long-only equity managers in recent years in favor of bonds and hedge funds. We recently noticed that bonds made up 43 percent of the assets of UK pension funds in 2012, exceeding the allocation to equities for the first time in almost 40 years. A recent Mercer survey of big European pension funds indicated that equity allocations had actually fallen to as low as 24 percent from almost 40 percent as recently as 2010. While bonds have, unlike stocks, experienced a nice, low-volatility tailwind in recent years as interest rates plunged to near 40 year lows, too few institutional managers have been considering the gale-force headwinds that may confront the bond market in the future. A recent quote

Figure 1:

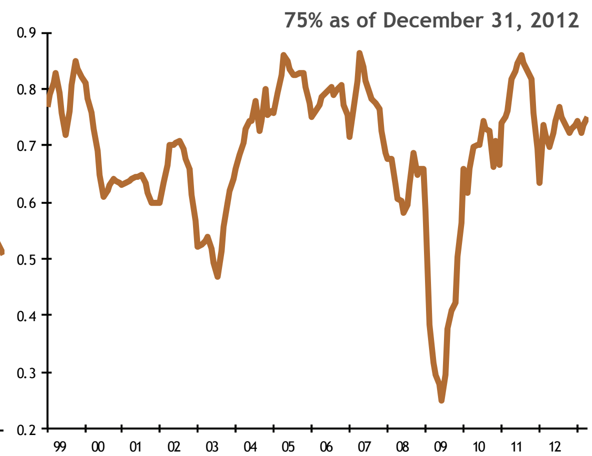
Number of Stocks Selling Below Tangible Book Value
(Market Cap. Greater Than $70 Mil)



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

Figure 2:

Aegis Value Fund Historical Price-to-Book Ratio



Source: Aegis Financial Corp.

by Goldman Sachs strategist Robert Boroujerdi states the case incisively: "A reversion of risk premiums to historical averages of six percent nominal rates (three percent real and three percent inflation) would suggest estimated losses in portfolios with bond durations of five years of 25 percent or more."

Instead of investing in equity markets, which not only have been unusually cheap, but also have traditionally delivered strong but sometimes volatile returns, pension fund managers appear to have been highly focused on reduction of short-term volatility. Often, this focus is at the expense of future returns – an unfortunate result given that pension funds, with their long lives, should be ideally positioned to absorb market volatility. As a case in point, consider that hedge funds, the volatility adverse darlings of the institutional community, returned a mere 5.5 percent in 2012 according to hedge fund industry tracker HFR. Last year was the fourth year in a row that hedge funds have lagged the broader markets as they kept net stock allocations low and engaged in the purchase of very expensive downside hedges. Since March of 2009, the HFRX Equity Hedge Index has underperformed the S&P 500 by an astounding 10 percentage points per year. It's remarkable that market timing, long considered by thoughtful investors to be a very difficult task, has come so strongly into practice by institutional investors who should know better.

With fear of financial calamity receding, and with the markets exhibiting significant strength in recent months, renewed vigilance is increasingly prudent as many of these investors may now be coming off the sidelines. As the volatility measuring VIX Index dropped recently to multi-year lows, emerging signs of investor complacency are beginning to show. Investment leverage once again appears on the ascendancy with brokers reporting margin loans in November of 2012 surging to the highest level since February of 2008. Hedge funds, having underperformed in recent years, are also now increasing leverage with Goldman reporting hedge fund exposure levels reaching a four-year high. The hedge fund consultancy Aksia reported that its December survey of 168 hedge fund managers showed bullish sentiment outweighed bearishness by a 3:1 ratio, well above the 1.3:1 ratio reported last year.

While we continue to believe that the impacts of the Federal Reserve's extraordinary $85 billion per month program of money printing could result in nominal stock prices moving significantly higher, we are approaching today's market with increasing caution and are devoting significant effort to reevaluate whether to hold on to portfolio securities that have increased in price. In situations where we believe share prices have risen beyond our estimates of intrinsic value, we have sold and reallocated the capital to investment candidates trading with what we perceive as better risk/reward profiles. As can be seen in **Figure 1**, fortunately, there continues to be an elevated number of potential watchlist companies from which to choose. As can be seen in **Figure 2**, as a result of our portfolio rotation, the Fund's overall price-to-book multiple has remained fairly steady in recent months, despite the run-up.

Given the Fed's efforts to continue down the path of heavy liquidity injection, and also given the longer-term inflation risk produced by current Fed policy, we are investing our capital with a view towards the possibility of materially higher levels of inflation and interest rates than we have seen in the past. So far in 2013, the Fund has continued to deliver strong returns. Yet despite the run-up, we continue to hold a diversified portfolio of companies that we believe are valued among the cheapest in the market today. Aegis employees have in excess of $15 million of assets invested in the Fund. We continue to diligently monitor the portfolio for emerging risks.

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

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.

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

An investment cannot be made directly in an index.

Stocks are generally perceived to have more financial risk than bonds in that bond holders have a claim on firm operations or assets that is senior to that of equity holders. In addition, stock prices are generally more volatile than bond prices.

The letter refers to thirteen issues held by the Fund: American Pacific Corporation, Dart Group, Alliance One International Inc., Sanmina Corporation, Patterson-UTI Energy Inc., EPL Oil & Gas Inc., Cal Dive International Inc., Sypris Solutions Inc., MBIA Inc. Tecumseh Products Co. (A&B), Tesoro Corporation, and Western Refining Inc. As of December 31, 2012, these stocks represent 5.3%, 2.2%, 6.5%, 2.7%, 4.0%, 4.8%, 2.4%, 1.3%, 0.0%, 1.5%, 1.2%, 3.1%, and 0.8% 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:** 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. **CPI** (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. **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. **HFRX Equity Index:** An index designed to be representative of the overall composition of the equity hedge fund industry.

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.