AEGIS **Value Fund**

AEGIS FUNDS

Portfolio Manager's Letter
Quarter Ended December 31, 2015

February 12, 2016

Dear Aegis Investors:

Table 1: Performance of the Aegis Value Fund as of December 31, 2015

	Three Month	Year-to-Date	One Year	Three Year	Five Year	Ten Year	Since I Share Inception*	Since A Share Inception*
			Annualized					
Aegis Value Fund Cl. I	-12.13%	-24.00%	-24.00%	-8.67%	-1.61%	1.78%	7.26%	NA
Aegis Value Fund Cl. A at NAV	-12.21%	-24.22%	-24.22%	NA	NA	NA	NA	-26.93%
Aegis Value Fund Cl. A-W/Load	-15.50%	-27.06%	-27.06%	NA	NA	NA	NA	-28.43%
Russell 2000 Value Index	2.88%	-7.47%	-7.47%	9.06%	7.67%	5.57%	7.23%	-1.85%

** 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.

After more than 15 years of generally strong performance, our deep value investment strategy has clearly come under increasingly intense pressure over the past 18 months as we traversed through a difficult period. Many discount-to-book securities registered significant market declines, with particularly large mark-downs among those issues exposed to the declining commodities complex. The fourth quarter marked a continuation of these trends, with Brent Crude dropping 22.9 percent while natural gas fell 7.4 percent. Industrial and precious metals also declined with copper, silver and gold dropping 8.8 percent, 4.6 percent and 4.8 percent, respectively.

With energy and materials companies representing such a large portion of stocks trading at depressed valuations, the broader deep value investment universe has come under increased selling pressure on account of commodities declines. To give a sense of how much discount-to-book investing performance has been influenced by commodities declines, consider that at year-end, energy and materials stocks comprised a hefty 35.2 percent and 17.4 percent, respectively, of all North American companies with market caps above $75 million that trade at valuations under 80 percent of book value. Driven primarily by a decline in energy and materials names, we calculate that a market-cap weighted index of all North American stocks with these metrics at the start of the fourth quarter would have declined an estimated 11.1 percent in dollar terms by year-end.

In stark contrast to the steep declines in deep value stocks, the broad market S&P 500 Index climbed a slight 1.38 percent in 2015 as an increasingly narrow subset of large cap names trading at lofty multiples soared higher, concealing these index fund investors from the pain felt in the broader market. Facebook, Amazon, Netflix and Google all surged in 2015, with the aggregate market capitalization of these four stocks alone increasing by over $450 billion, a 61 percent annual increase. Netflix, in fact, gained an eye popping 134 percent in 2015. Earnings levels of these companies failed to keep up with the lofty stock market gains, and as a result, the average price-to-earnings ratio on these four stocks has now climbed from 59 times to an astronomic 265 times by year-end. Driven, in part, by gains in these four companies, the twenty largest stocks in the S&P 500 at year-end had reportedly gained an estimated average of approximately 15 percent, while the other 480 stocks were actually down by an estimated average of approximately two percent. Many stocks registered double digit declines in 2015, with stocks in the Russell 2000 Value Index off by an estimated average of 53.5 percent from their high at year-end. The performance differential between the top 10 S&P 500 stocks and the rest of the market was at year-end said to be at its widest point since the height of the internet bubble in 1999. With the price of the S&P 500 closing the year at a lofty 22.7 times trailing earnings, we believe large caps are somewhat susceptible to a decline, particularly given that corporate profit margins are near all-time highs and susceptible to a pull-back.

Given the strong relative performance of the S&P 500, which has been driven by the heavily weighted mega-cap names, investors have continued to pile into index funds in 2015, perhaps unaware that index investing in the S&P 500 today increasingly encapsulates an outsized bet on large-cap growth stocks trading at high valuations. Leading index-fund provider Vanguard attracted a record $236 billion of inflow in 2015, even surpassing 2014's record year. In stark contrast, according to Morningstar, investors yanked $139.5 billion from actively managed mutual funds in the first 11 months of the year.

Within the institutional space, trend following investment strategies that explicitly follow price momentum have also experienced double digit asset growth over the last several years, according to JP Morgan. Many of these types of money managers are dogmatically pursuing long-the-dollar, buy large-cap growth, sell-the-commodities investment themes that amplify many of the difficult commodity-related investment trends that we have been witnessing in recent months. Additionally, increasing levels of price volatility associated with deep-value investments has been a stark contrast to the smooth ride higher experienced in 2015 when holding high-multiple, large-cap U.S. equities. We believe that this disparity in volatility has influenced many investment managers employing "smart beta" and other strategies that prioritize minimization of quotational price volatility over valuation control when monitoring for portfolio risk to liquidate volatile deep value stocks, regardless of how cheap they are, and shift capital into more smoothly performing large-caps, regardless of how overvalued. We believe this has also been a factor contributing to increased volatility among small-cap value stocks.

With the S&P 500 rising to close the year near all-time highs and the US Dollar Index climbing to levels approaching 15-year highs, emerging market equities, foreign currencies, and commodities have generally dropped to levels below the Great Recession lows of 2008/2009. JP Morgan quantitative strategy analyst Marko Kolanovic recently published a research note highlighting the disparity between the performance of the S&P 500 and these volatile, underperforming assets, indicating the divergence has reached an "unprecedented (>3 standard deviation)" level. The thesis of the note was that a "Macro-Momentum" bubble had formed, and that a future convergence in performance in which the underperforming asset classes begin to outperform was increasingly likely. While in the long-run, those who have incorrectly presumed low volatility investments to be low risk investments are likely to eventually be painfully proven wrong should this disparity moderate, in the interim, investors interested in holding stocks trading at steeply discounted valuations today must endure an unusual amount of frustrating price volatility. To add insult to injury, by year-end 2015, we believe losses in deep value stocks were being further compounded by technical selling as well as fund liquidations and tax loss harvesting as investors broadly shifted capital away from value managers and towards the lofty valued large-cap growth strategies.

Within our portfolio, we have clearly been experiencing a high degree of price volatility (both up and down) emblematic of these money flows. Volatility of our investments has recently been among the highest levels seen since the depths of the Great Recession crash of 2008-2009. In fact, it has not been unusual recently to see intraday swings in the price of our large holdings of as much as 25 percent. Often these dramatic moves occur in the absence of any particular fundamental justification or release of new information. While the near-term earnings levels of some of our commodities-related holdings are certainly somewhat challenged at the moment, we view the equity price declines overall to have been significantly in excess of anything warranted by the level of deterioration seen in company fundamentals. Many will remember that in 2008-2009, the Fund experienced a drying up of trading liquidity in many of its small-cap holdings as well as technical/forced selling which drove valuation levels to extremes. Today we believe we are witnessing similar behavior in many of our deep value securities.

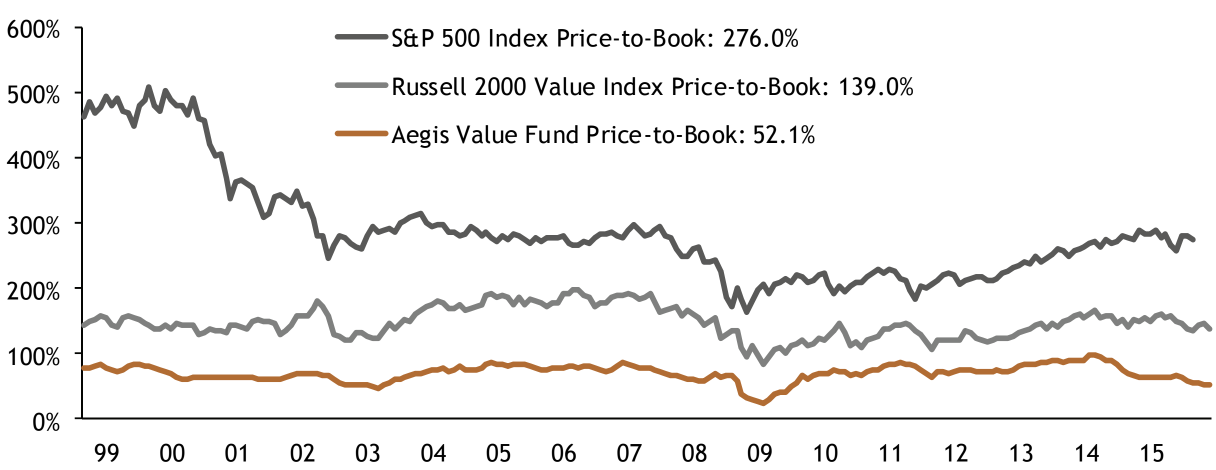
As an example, consider the case of **Alliance One International (AOI)**, our largest holding, which suffered an extraordinary 43.7 percent fourth quarter share price decline to close the year at $11.16 per share. The drop in the quoted price of Alliance One shares alone was responsible for an estimated 5.6 percentage points of Fund decline in the fourth quarter. The decline occurred as the company announced that it would delay the filing of quarterly financials pending a third party investigation after the disclosure of accounting irregularities limited to a non-core subsidiary in Kenya that had been slated for closure. While a financial filing delay of this nature is never good for investor sentiment, we believe the reaction has been entirely out of proportion to the heightened level investment risk implied by the announcement. In our research, which included multiple conversations with members of the board and management, competitors and other investors, we have concluded that our investment thesis remains intact. The company continues to remain compliant with its banking covenants and has the support of its lenders. Company insurance is also available to offset a portion of any company losses experienced as a result of theft, which is highly suspected. But most importantly, the issue does not appear to materially impact the demonstrated earnings power of the underlying business.

Despite the successful implementation of significant cost cutting that has yet to fully work its way through the financials, and despite the improved business conditions as tobacco markets tighten, shares in Alliance One dropped precipitously in the fourth quarter to the point that shares now trade at levels that we believe are potentially within 2-3 times the coming year's per share free cash flow. Furthermore, we expect earnings at Alliance One also have the potential to grow to as much as $10 per share over the next several years. Should this earnings growth materialize, an increase in the valuation level of the equity to 12 times earnings could potentially deliver a share price in excess of $100, which would imply a shareholder return of nearly 10-times over current levels. While this would certainly take time to play out, even smaller levels of gains in the near-term would drive a significant recovery in overall Fund performance. Given the sizeable undervaluation in Alliance One shares, at year-end these shares comprised 8.9 percent of Fund holdings.

Alliance One is just one of several companies in the portfolio that we believe are materially undervalued. **McDermott (MDR)** recently traded down to 40 percent of book value and now holds an enterprise value of just 3.7 times depressed forward expected EBITDA of $250 million. The $670 market cap offshore construction company, with only $250 million of net debt (which we adjusted to include the additional debt required for the completion of a large high-spec new vessel), recently beat out competitors to win one of the biggest contracts in its company history in Saudi Arabia. McDermott shares today trade at a 30 percent discount to the company's lows of 2008-2009 — lows from which McDermott shares increased by five times by 2011 in the last petroleum up-cycle. **Nevsun, (NSU)** recently traded down to the point that the market capitalization of the debt-free company was under the value of the cash and receivables on its balance sheet, indicating a negative $25 million value for its 60 percent-owned lowest cost quartile copper/zinc mine in Eritrea. The mine includes $400 million of milling and mining equipment alone, not to mention the value of the resource itself. **Alaska Telecom (ALSK)** today trades at a $75 million market cap. The provider of telecom and business internet connectivity in Alaska has approximately $150 million of low cost debt, net of cash, and is on-track to deliver $56 million of EBITDA in 2016. Alaska trades at just half of its tangible book value, which we believe to be significantly understated given the extensive telecom network that has been built-out over the years. We recently purchased a block of **Deep Down (DPDW)** stock on the last day of the year from a fund that was liquidating the position. We believe the small deep water specialty engineering firm, with de minimis net debt, is likely to be cash flow generative in the coming year despite its energy-related focus. The company is in the process of liquidating non-core assets, that, if sold, are likely to give the company cash equal to three times the entire capitalization of the company at the time of our purchase. Overall, as seen in **Figure 1**, stocks in the Fund trade at 52.1 percent of book value. This is clearly an unusually

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 12/31/2015) large valuation discount to the broader indices, and is the lowest valuation since the depths of the 2008-2009 financial crisis. On the two previous occasions in the last 16 years when Fund valuations were this low, Fund performance over the ensuing year was extraordinarily strong (up 153.9% from 3/31/09 to 3/31/10, up 53.5% from 3/31/03 to 3/31/04).

As commodity prices declined amid worsening investor sentiment, we pushed ahead in 2015 with our "around the corner" portfolio positioning, adding to our investments in select energy and materials stocks as these stocks declined over the course of the year. Unfortunately, in the fourth quarter, a further leg down in commodities prices occurred and investor sentiment darkened even further. By year-end, prices had declined to the point that investors were growing increasingly concerned about massive debt defaults and broader economic contagion, increasingly referring to "Oilmageddon" or "Commodageddon" with some even suggesting that commodities trading giant Glencore could be the "next Lehman Brothers."

Throughout this stressful period, as we've seen our stocks decline in price, we have endeavored to react with diligence, discipline and consistency, in each instance rechecking our work and evaluating our core investment case with an eye towards ensuring that we hold companies that have not only the balance sheet strength to absorb the lumps of low commodity prices in the near-term, but also the potential to appreciate dramatically as commodity prices normalize. Overall, declines in the quoted prices of the Fund's energy stocks impacted the quarter by 3.38 percent and declines in its materials holdings detracted a further 1.75 percent from Fund performance.

Today, the prices of many commodities trade at levels that we have concluded are materially beneath those required to sustain existing production. As a result, in 2016 we expect to see the emergence of commodity supply rationalization as an increasing trend that begins to underpin a global recovery in commodities prices. Furthermore, we would expect to see a growing number of acquisitions of smaller commodities producers as larger firms focus their effort on acquiring reserves in the market, rather than through exploration activity.

Crude oil appears to be among the commodities most exposed to a recovery based, in-part, on supply rationalization, as crude supply capacity leaves the market with each barrel consumed. During 2015, oil prices plunged as Iraq added a surprisingly robust 750,000 barrels (bbls)/day to the world market. Rather than act in its historic swing producer role cutting production to balance the market when prices declined, Saudi Arabia reversed policy and instead also increased production by another 750,000 bbls/day over 2014 levels. Neither Iraq nor Saudi Arabia appear to have the additional capacity to provide a 2016 repeat of last year's supply expansion. While the removal of world sanctions on Iran is widely expected to lead to a much heralded 500,000 to 1 million barrel increase in Iranian production, it is not clear that Iran can deliver the volumes they claim. Despite the excess Iranian production capacity, the IEA recently estimated overall excess OPEC capacity at just 3.2 percent of global demand. The last time excess OPEC capacity dropped through these lows in 2003, oil prices doubled over the next year and quintupled over the next five. The most obvious difference between OPEC supply dynamics today compared to those in 2003 is that the probability of future OPEC oil supply curtailment due to regional political upheaval, violence and war appears much greater today.

Outside of OPEC, shale drilling is off 60-70 percent. At these lower levels of drilling activity, production volumes from U.S. shale reservoirs are now declining on the order of 100,000 bbls/day with each month that passes. Production rates from non-U.S., non-OPEC regions are also likely now entering a period of substantial decline as well. Although production volumes from these regions held up in 2015 as long-lead time projects initiated when oil prices were higher came on-line in 2015, production additions from such projects are likely to slow dramatically in 2016 as a sizeable number of new projects have been scrapped. Petroleum consultancy Rystad Energy recently tallied up 62 pre-sanctioned megaprojects around the world that have now been deferred since mid-2014, delaying a total capital investment of $222 billion. These postponed projects would have reportedly produced 4.2 million bbls/day of new production. If current trends hold, 2015 & 2016 are now slated to be the first back-to-back years of declines in exploration and production investment spending in close to 30 years. With spending plummeting and fewer long-lead megaprojects started in recent years, we believe it is highly likely that non-US, non-OPEC legacy production declines of 3-5 percent will begin to impact the 55 million bbls/day of oil produced from this group.

While investors have been fretting over the potential for a world-wide depression for some time, global oil demand has been growing robustly, with the IEA estimating demand growth of 1.5 million bbls/day in 2015 and another expected 1.2 million bbls/day in 2016. We think these 2016 estimates could prove low. In the five years prior to 2014, when oil prices traded around $100/bbl, world demand reportedly grew by eight million bbls/day. We don't think it's a stretch to figure that demand growth at today's much lower oil prices is likely to be at least as strong over the next five years, regardless of any near-term global economic speedbumps encountered. Our supply/demand modeling indicates that the recent supply overhang that has made for so many splashy "lower for longer" news headlines in recent months is likely to prove far more transitory than is now conventionally believed. Never mind the growing possibility that OPEC member countries once again change course and resume their traditional role in balancing the market. Barring the onset of a serious global depression that crimps short-term demand, we believe it is highly likely we will continue to see a steady climb upwards in oil demand. With supply growth likely to shift into reverse, oil markets should soon tighten, resulting in a possible price rebound. At year-end, approximately 15 percent of the Fund's portfolio was invested in the energy sector, including **WPX Energy (WPX)**, **McDermott International (MDR)** and **Mitcham Industries (MIND)**. Should oil prices rise, these companies have the potential to deliver extraordinarily strong returns from today's levels.

The Fund also continues to hold many companies in the beaten-down metals and mining sector, with a particular focus on precious metals miners. At year-end, the Fund held 16.3 percent of Fund assets in precious metals miners including **Lake Shore Gold (LSG.TO)**, **Dalradian Resources (DNA.TO)**, **Guyana Goldfields (GUY.TO)**, **Avino Silver and Gold (ASM.TO)**, **Alamos Gold (AGI.TO)**, **Coeur Mining (CDE)**, **Endeavor Mining (EDV.TO)**, **Continental Gold (CNL.TO)**, and **TMAC Resources (TMR.TO)**. These precious metals mining concerns have plunged over the last few years to near 15-year lows, as conventional investors have bought into the Federal Reserve narrative that all-is-well and interest rates are normalizing higher. In response, many of these investors have been loading up on financial stocks and avoiding precious metals like gold, which has been savaged in the press as a "pet rock" that doesn't provide a yield.

We have held a significantly divergent viewpoint. We are much less sanguine about the recent explosion in global debt levels than the market appears to be. In recent years, world debt levels have clearly been increasing at an unsustainable rate much faster than world Gross Domestic Product (GDP). According to research by McKinsey released in 2014, world debt increased by approximately $60 trillion since 2007 to approximately $200 trillion. Aggregate world debt by 2014 had grown to a massive 286 percent of world GDP, with Debt-to-GDP levels reaching 269 percent in the United States. The U.S. Federal Government continues to run deficits that add to the problem with no political solution in sight that would curtail growth in deficit spending. Given the growing level of debt overhang world-wide, we believe a normalization of interest rates is likely to prove far more difficult than the Federal Reserve currently projects, and is unlikely to be accomplished without creating a significant level of consumption sapping default. Throughout history, governments have dealt with high debt levels by printing money to cause inflation and by instituting capital controls to subsidize government borrowing. Banking institutions appear to be at particularly high risk of being politically coopted into the role of public utilities charged with directing public savings into supporting and subsidizing sovereign debt. Today, interest rates are being set at negative levels in an increasing number of countries, with over $7 trillion of sovereign debt in the world now actually trading with negative yields. Against this backdrop, and with Central Bank authorities like Mario Draghi pledging to "do what we must to raise inflation as quickly as possible," we find it highly unusual that in 2015 gold turned in a third year of back-to-back declines as precious metals mining stocks closed the year near multi-year lows. Given the extraordinarily poor investor sentiment towards gold, we have loaded up on what we believe are some of the most undervalued mining assets in the world as they have clearly been on sale.

Since year-end, through February 12, while Brent crude oil prices have plunged another 10 percent, the story for precious metals has brightened, with gold climbing 14 percent and silver rising 11 percent. The impetus for the recent move higher appears to be a softening of U.S. economic conditions, and a declining U.S. stock market following the Fed's 25 basis point increase in December. Market participants are increasingly concluding that the much heralded Federal Reserve rate hikes are finished for now and the dollar may have hit its high. More recently, Bank Of Japan Governor Haruhiko Kuroda moved Japan's interest rates negative, claiming he will do "whatever it takes" to bring inflation to two percent. Kuroda's action led to a significant drop in Japan's market and raised the specter of increasingly competitive debasement of world currencies. Our precious metals and mining stocks have performed very well since year-end, and yet continue to trade at low valuations that we believe fail to fully incorporate the recent moves higher in gold and silver.

Overall, we continue to hold a portfolio of stocks trading at levels that we believe are among the most attractive in the market today. We realize that many of these stocks have exhibited high levels of volatility in the last 18 months as investors have fled the commodity and materials centric deep value sector. While the quoted prices on our investments have dropped in recent months, we have patiently worked to position the Fund to deliver strong potential future returns which may be particularly bolstered as the energy, commodities and materials sectors normalize. We believe our stocks are likely to deliver large gains from today's prices. Employees and their families have over $14 million invested in Fund shares. We continue to carefully watch the portfolio. 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.

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., Resolute Forest Products Inc., WPX Energy Inc., Photronics Inc., Nevsun Resources Ltd., Alaska Communications Systems Group Inc., Echelon Financial Holding Inc., Mercer International Inc., and McDermott International Inc. As of December 31, 2015, the stocks represent 8.9%, 6.7%, 5.3%, 5.1%, 4.5%, 4.3%, 3.7%, 3.7%, 3.2%, and 3.1%, 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 Facebook, Amazon, Netflix, and Google, 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. **Cash 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. **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. **Price-to-Earnings:** A valuation ratio of a company's current share price compared to its per-share earnings. **Standard Deviation:** A measure of dispersion of a set of data from its mean. **Free cash flow (FCF):** the cash that a company is able to generate after laying out the money required to maintain or expand its asset base. **Basis Point:** One 100th of one percent. **Smart beta** defines a set of investment strategies that emphasize the use of alternative index construction rules to traditional market capitalization based indices. It emphasizes capturing investment factors or market inefficiencies in a rules-based and transparent way.

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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