AEGIS Value Fund

Portfolio Manager's Letter
Quarter Ended December 31, 2016

January 11, 2017

Dear Aegis Investors:

Table 1: Performance of the Aegis Value Fund as of December 31, 2016

	Three Month	Year-to-Date	One Year (Annualized)	Three Year (Annualized)	Five Year (Annualized)	Ten Year (Annualized)	Since I Share Inception* (Annualized)	Since A Share Inception* (Annualized)
Aegis Value Fund Cl. I	6.73%	70.71%	70.71%	-1.29%	10.23%	5.63%	9.96%	NA
Aegis Value Fund Cl. A at NAV	6.66%	70.41%	70.41%	NA	NA	NA	NA	-1.59%
Aegis Value Fund Cl. A-W/Load	2.64%	63.97%	63.97%	NA	NA	NA	NA	-2.90%
Russell 2000 Value Index	14.07%	31.74%	31.74%	8.31%	15.07%	6.26%	8.42%	8.85%

** 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 1.53% 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.

We are pleased to report that the Aegis Value Fund delivered another three months of solid investment performance during the final quarter of 2016, bringing the Fund's annual return to 70.71 percent (I-shares). The Fund's 2016 return outperformed the Russell 2000 Value Index by an unusually high 39 percentage points, earning the Aegis Value Fund the distinction of winning the Wall Street Journal Winners' Circle contest for best performing U.S. stock mutual fund over the previous year within the universe of 1,483 actively managed, diversified, unlevered funds with at least three-year track records and more than $50 million in assets.

After declining in the first month of the quarter, U.S. equity markets experienced a dramatic turnaround following U.S. elections in early November amid increased optimism over the prospects for deregulation and tax cuts. By the time the quarter ended, the S&P 500 Index of large-caps was up 3.82 percent. According to Trimtabs, US equity exchange traded funds (ETFs) experienced record buying volume during the last two months of the year, with reported inflows on all but six trading days following the U.S. presidential election. Overall, an incredible $110.6 billion was injected into U.S. equity ETFs during the record two month period, equivalent to an astounding 7.2 percent of all U.S. equity ETF assets. Small cap value stocks significantly outpaced the S&P 500, with the Russell 2000 Value Index climbing a strong 14.07 percent. The dollar also rose sharply, climbing 15.4 percent against the Yen and 6.8 percent against the Euro in the quarter. Interest rates surged on improved U.S. economic sentiment, with the 30-year bond yield soaring 75 basis points over the quarter to close the year at 3.07 percent. Short-term money market rates also rose as the Federal Reserve hiked the Federal Funds interest rate by 25 basis points in December. The rise in yields impacted bond investors world-wide as bond prices dropped, with the Bloomberg Barclays Global Aggregate Total Return Index losing 4 percent in November alone, its biggest monthly decline since its 1990 inception, wiping a reported $1.7 trillion of aggregate value off the bonds in the index during the month.

In the wake of the U.S. presidential election, with investor sentiment rapidly improving and interest rates moving higher, bank stocks were propelled higher, with the KBW Nasdaq Bank Index climbing nearly 22 percent from Election Day through year-end, more than quadrupling the S&P 500's gain of five percent. Within the Russell 2000 Value Index, financial stocks, which comprise nearly a third of the index, delivered a massive weighted average return of approximately 24 percent over the fourth quarter, contributing an estimated 730 basis points of return to the index. However, with just five percent of Aegis Value Fund assets invested in the financial sector, and with the lion's share of these assets allocated to a few small non-bank insurance company special situations, we missed out on the strong performance in bank stocks, underperforming the Russell 2000 Value during the fourth quarter.

We didn't think bank stocks were great investments before the run-up. We like them even less today.

We have not held many bank stocks in recent years, believing the risks too high, the balance sheets too opaque, the regulatory regime too constricting and the return on equity too low to warrant investment. With bank stocks having surged higher in 2016, delivering what is said by Barclays to be their 15th best year of gains in the the last 80, we believe bank valuations today are likely to have overshot fundamentals. At the moment, bank investors have become quite excited at the prospect of improving bank earnings as bank net interest margin (NIM) expands, courtesy of a rise in short-term rates, which typically cause bank assets (loans) reprice faster than their liabilities (deposits). Bank investors today are also excited about the potential for significant administrative expense reduction driven by improved post-election prospects for deregulation, such as a rollback of the Dodd-Frank legislation.

We suspect, however, investors may not have adequately considered the many other risks that can accompany a rise in interest rates from the extraordinarily low levels of recent years. For example, increasing interest rates can impact a bank's asset quality as borrowers struggle to pay higher interest rates on floating-rate loans. Additionally, some worry that in recent years that some banks, facing extraordinary competition to make profitable loans, have increased the duration and extension risk with respect to their loan and securities portfolios in order to improve short-term financial performance, leading to a growing mismatch between the maturity of bank assets and their funding sources and leaving certain of these banks susceptible to escalating losses as rates rise.

Additionally, bank investors today may not be adequately considering the possibility that after many years of low rates, today's increasingly technology-savvy depositors may be far more likely to quickly leave a financial institution if it fails to offer a competitive market interest rates on its deposits. Under such a scenario, banks would be forced to reset interest rates on core deposits much more quickly than has been the case historically, with negative implications for future bank net interest margins and profitability growth. Financial regulation may also be substantially more difficult to repeal than is now expected, particularly given that Republicans hold a slim majority of just 52 seats in the Senate, far fewer than the filibuster-proof majority of 60 required to roll back regulatory legislation such as Dodd-Frank.

Today, banks are earning a return on assets above their 30-year median, due in part to loan losses that are now running at 60 percent below their historic average. These loss rates are now at low levels not seen since 1981 and 1986. The ratio of loan loss provisions to loans at banks are also generally well below the 1990-2011 average. Yet today we are 87 months into an economic expansion, well above the post-war average of 55 months. As such, it is difficult to believe that bank credit risks are not coalescing beneath what appears to be a calm surface. Consider, for example, that the average maturity for car loans has today climbed to more than 66 months, up from less than 60 months in early 2009. Average auto loan balances have grown by approximately 20 percent, and auto loan delinquencies are now also on the rise. Lending to non-bank financial institutions is another area that today looks somewhat precarious, with the top 10 hedge funds reportedly borrowing so much capital that they are leveraged at a disconcerting ratio of 15-to-1. Overall, should loan losses revert to more normal levels, bank profitability could be materially impacted.

Since the election, markets have surged higher on a tide of improved investor sentiment amid high hopes for deregulation and tax cuts. However, we believe investors today may be too sanguine, as the contours of many of President Trump's eventual policy positions still remain somewhat undefined or ambiguous. As a result, in the current honeymoon phase before the new President takes the oath of office, it bears considering that the extraordinarily high levels of investor optimism seen today may not yet be fully warranted. Even if the new President advocated for the perfect economic policy, it is not clear how much of this policy he would actually be able to implement, given the rules of our constitutional republic, with its separation of powers. And while a reduction of the constricting regulatory state and its un-competitively high tax-rates may be laudable from an investment perspective, we must also remember that free trade and labor mobility impediments could be significantly damaging to our economy, as could trillion dollar infrastructure packages, defense revitalization plans or new social programs. The ratio of Federal debt to Gross Domestic Product (GDP) is already at the highest levels since the end of World War II, and debt is still rising as massive deficits occur year-in and year-out. Trump is scheduled to enter the office of President with Debt-to-GDP nearly four times that faced by Ronald Reagan on his first day. To us, it remains an open question if Trump's potentially positive deregulatory and tax policies can get the economy growing at a faster rate than growth in Federal debt.

As prudent investors concerned over these issues, we question the overwhelming investor consensus that rates will rise and domestic growth will now easily resume. For example, we know that as a result of massive debts incurred under previous administrations, economic conditions are now likely to be far more sensitive to even small changes in interest rates, causing debt servicing costs to rise more intensely with each incremental rate increase. Additionally, with the dollar surging to 14-year highs, domestic GDP growth could face near-term headwinds as U.S. companies find it harder to compete in the world economy. In 2015, economists at the New York Fed estimated that each 10 percent increase in the U.S. dollar negatively impacts GDP growth in the following year by as much as half a percentage point. Should the Fed be required to hike interest rates rapidly to squash any future flare-up of inflationary pressure, economic stress and volatile markets could very well be the outcome. As a result, we do not currently wish to make significant investment in banks and other highly levered financial institutions with opaque assets and risks where rosy scenarios of strong economic recovery and multiple rate hikes appear to be increasingly baked into valuations and future earnings expectations.

While investors have been buying highly levered bank stocks, we have focused on precious metals mining assets.

While the prospect for additional interest rate hikes and economic recovery has enticed investors back into bank stocks, we have once again looked towards precious metals, where rate increase sentiment has clearly damaged investor interest. The precious metals complex declined in the fourth quarter as the price of gold dropped 12.8 percent and silver lost 16.9 percent. The MVIS Global Junior Gold Miners Index significantly underperformed gold, dropping 24.1 percent over the quarter as investors purged gold stocks from their portfolios. At September 30, 17.6 percent of Fund assets were invested in 15 different precious metals mining equities. Declines among this group of stocks over the fourth quarter cost the Fund an estimated 3.12 percentage points.

The position most negatively impacting Fund performance overall was African precious metals producer **Endeavour Mining (END.TO)**, which dropped 22.9 percent over the quarter, detracting an estimated 0.86 percent from Fund returns. We could find no Endeavour-specific corporate fundamental developments that would justify a decline of that magnitude, and have concluded these declines are likely the result of shares dropping in concert with gold's decline, with perhaps some additional technical pressure from late-year tax-loss selling. Endeavour, with a market-cap of $1.65 billion and a currently debt-free balance sheet, offers good value among mid-tier producers in the gold mining universe. The company is fully funded and on schedule to complete its two million ounce open pit Hounde gold mine project at the end of 2017. With the additional production from Hounde, along with growth opportunities at its Ity mine, we project the company trades at just 4.4 times our estimate of 2018 EBITDA of $400 million and 7.5 times our 2018 free cash flow estimate of $220 million, which presume spot gold pricing. Upon completion of Hounde, Endeavour's average mine life will increase from six years to in excess of ten years.

While we suffered declines on our precious metals mining companies in the fourth quarter, we were excited to see stocks dropping to better valuation levels and we took advantage of the weakness to add to our holdings in the quarter. The Fund's largest purchase in the period was **Dundee Precious Metals (DPM.TO)**, where we increased our existing position as shares declined during the quarter from $3.24 to $2.25. Dundee shares weakened following the report of an unusual power outage-related flooding accident at its Tsumeb copper smelter, which damaged the kiln lining and shut down processing, leading to disappointing financial losses while the facility was under repair and not operating effectively. With investor sentiment overly pessimistic regarding what we believed was a temporary issue, we concluded the shares were attractively priced, particularly since the company is in the process of bringing on its Krumovgrad mine in late 2018, which is projected to significantly boost gold production. Presuming the addition of Krumovgrad production and a resumption of the Tsumeb refinery, the company trades at just 2.5 times our estimate of $150 million in 2019 cash flow, assuming current spot gold and copper prices. We took advantage of additional index and tax loss selling pressure which occurred towards year-end and significantly ramped our position. By year-end, we had built the position to 2.9 percent of Fund assets, with the relative position size continuing to grow as shares have climbed almost 40 percent in the first 11 calendar days of 2017.

Overall, at year-end, we held 17.7 percent of Fund assets in 15 different metals and mining equities. We believe these mining assets generally trade at attractive cash flow multiples based on today's spot gold price. Furthermore, we believe these assets offer investors significant insulation against certain lower-probability scenarios where the financial system may be heavily impacted by accelerating inflation. Under such scenarios, we see the possibility of our precious metals mining-related equities potentially delivering strong gains as precious metals prices climb while general economic conditions weaken.

Energy stocks had a great quarter. We trimmed our holdings as the sector strengthened.

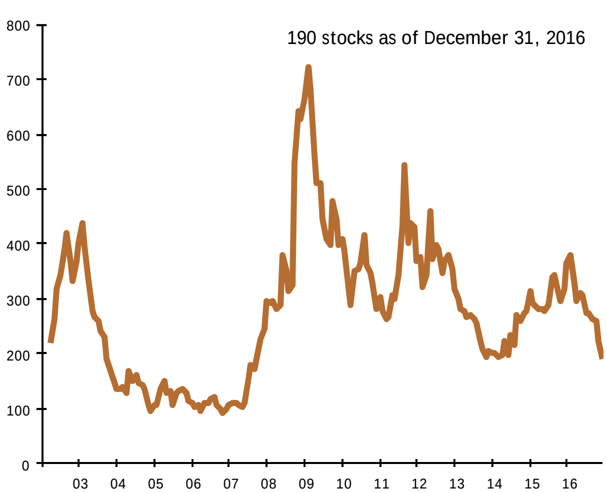
Energy stocks had a strong end to 2016 as members of OPEC reached agreement at the end of November, coordinating with Russia to curtail nearly 2 million barrels per day of production after two years of brutal price competition which saw the price of oil plunge by nearly 75 percent. The OPEC agreement dramatically improved market sentiment and was a key factor driving a 15.8 percent quarterly recovery in the price of Brent Crude Oil. Energy stocks within the Russell 2000 Value Index increased by an estimated weighted average of 20.6 percent over the quarter. Energy stocks, comprising approximately 17.1 percent of Fund assets at the start of the quarter, were also strong contributors to Aegis Value Fund returns, delivering an estimated gain of 4.55 percentage points to the Fund's fourth quarter results.

McDermott International (MDR) was the largest contributor, adding approximately 2.0 percentage points to Fund returns as shares in the offshore oil & gas engineering and construction firm increased by 47.5 percent over the quarter. We began to build our position in McDermott starting in late 2013 as new management at the company was embarking on a multi-year organizational restructuring to stem sizable losses on several large contracts. Fortunately, the efforts served the company well in the ensuing energy downturn, allowing McDermott to win bids on more than $5 billion of work in 2015 and 2016 while improving company margins. With a $2.1 billion market capitalization and just $160 million of net debt (net of cash), McDermott is now at the tail-end of a two-year $400 million capital program after which capital expense is expected to fall to just $60 million in 2017, allowing the company to generate estimated free cash flow of $175 million on EBITDA of $320 million. In a more normalized year, McDermott has the potential to generate free cash flow of as much as $250 million on EBITDA of $500 million. Should conditions normalize, we believe McDermott could trade up to 7 times EBITDA, equivalent to a stock price in the $12 range. However, given the significant run in company shares in recent months, as well as the volatility inherent in offshore construction, we took the opportunity to trim back the position, cutting our holdings to 3.9 percent by year-end.

We also trimmed our position in **WPX Energy (WPX)**, the Fund's largest fourth quarter sale. As we discussed in some detail in our third quarter letter, WPX's two-year repositioning from natural gas to low cost oil producer has been a tremendous success, particularly in the Permian basin where enhanced drilling and completion techniques have dramatically improved the economics of oil exploitation, validating WPX's transformative purchase last year of Permian producer RKI. Permian finding costs are now as low as $5 per barrel of oil equivalent (BOE), and per management, can generate an 80 percent return on investment at $50 dollar oil. Over the next several years, WPX, with a market cap of $5 billion and just $2.4 billion of net debt, has further valuation upside as the company ramps production, particularly if oil prices continue to climb. However, we also took advantage of the rapid run-up in oil positions to cut our exposure in WPX. At quarter-end, the Fund held a 4.4 percent position in WPX Energy.

Figure 1:

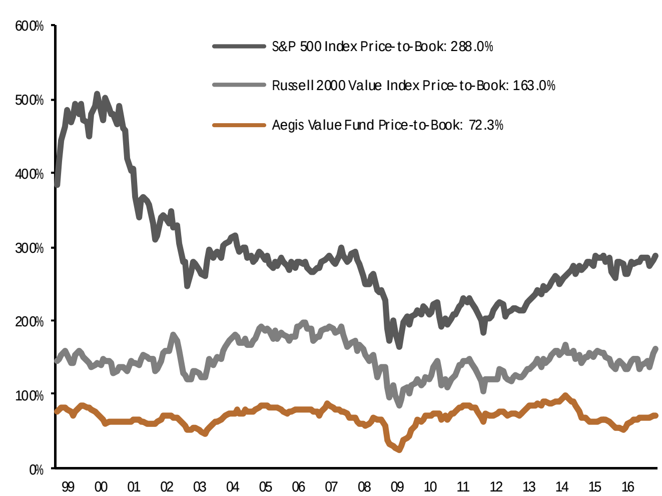
Number of Stocks Selling Below Tangible Book Value
(Market Cap. Greater Than $70 Mil)



Source: U.S. public equity market statistics from Stock Investor Pro (Data from 4/30/2002 to 12/31/2016)

Figure 2:

Aegis Value Fund, S&P 500 Index, and Russell 2000 Value Index Historical Price-to-Book Ratio



Source: Aegis Financial Corp and Bloomberg (Data from 9/30/1998 to 12/31/2016)

AEGIS FUNDS

Markets today look fully valued, but we like the valuation of our portfolio and remain small and nimble.

With stocks soaring higher, broad market valuations have become quite full. A recent analysis by Goldman Sachs of stocks in the S&P 500 determined that the median stock now trades at 3.3 times book value, at 17.7 times forward price-to-earnings and at a significant 11.4 times EBITDA. Goldman determined these valuations place the median stock at the 98th, 95th, and 99th percentile respectively, when measured against these median valuations historically, implying that domestic markets are in a period of unusually high valuation. Even within the small cap value universe, valuations are rising, with the price-to-book multiple of the Russell 2000 Value Index surging over the last quarter from 144 percent to 163 percent. Within the deep value universe, as can be seen in **Figure 1**, the number of stocks on our watchlist of domestic companies trading at less than tangible book value declined materially in the fourth quarter, dropping from 261 prospects at the end of the third quarter to just 190 stocks at year-end, primarily as a result of bank stocks getting repriced at higher valuations. This has reduced number of deep value watchlist prospects to levels well beneath the long-term average of 278, indicating a more limited opportunity set for the time being

We continue to work diligently to maintain investment in a diversified portfolio of equity holdings that we judge offer the best bargains available in the market today. Fortunately, with passive capital and robo-advisors chasing large-cap stocks, and with other retail investors focused on overpriced income paying securities and bank stocks, we have so far continued to find a sufficient number of deep value, small-cap opportunities we consider cheap enough to warrant investment, even among today's more picked-over market. Fortunately, our small asset size allows us to more effectively exploit the market inefficiencies we do find. Where positions in the portfolio have climbed beyond reasonable valuation levels, we have so far been able to sell and move on, recycling the capital into investments that we think are more attractive. Should market euphoria leave us temporarily unable to find sufficiently attractive replacements, we will allow cash levels to build at the Fund pending the reemergence of good opportunities. At year-end, Fund cash levels were at 5.6 percent of assets.

Overall, as can be seen in **Figure 2**, stocks in the Fund trade at a portfolio weighted average valuation of just 72 percent of book value. While the Fund's valuation is up slightly from 68 percent of book value at the end of September, its valuation is now less than a quarter that of the S&P 500 Index, and less than half of that of the Russell 2000 Value Index. We believe these discounts provide our Fund investors with a much stronger risk/return profile than is offered by investment in these indices. Aegis employees own over $24 million in Fund shares. We continue to carefully monitor the portfolio for emerging risks. 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., Resolute Forest Products Inc., Delta Apparel Inc., WPX Energy Inc., Alaska Communications Systems Group Inc., Fly Leasing Ltd., McDermott International Inc., Geodrill Ltd., Verso Corp., and Universal Stainless & Alloy. As of December 31, 2016, the stocks represent 10.6%, 5.4%, 4.7%, 4.4%, 4.3%, 4.1%, 3.9%, 3.7%, 3.1%, and 2.9%, 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. **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. **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. **KBW Bank Index:** consisting of the stocks of 24 banking companies. This index serves as a benchmark of the banking sector. **Debt-to-GDP ratio:** the ratio between a country's government debt and its gross domestic product (GDP). **MVIS Global Junior Gold Miners Index:** The modified market cap-weighted index tracks the performance of the most liquid junior companies in the global gold and silver mining industry. **Barclays Global Aggregate Total Return Index:** a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging markets issuers. **Return on equity:** The amount of net income returned as a percentage of shareholders equity. **Duration:** A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. **Return on assets (ROA):** an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. **OPEC**: The Organization of Petroleum Exporting Countries is a group consisting of 12 of the world's major oil-exporting nations. **Forward price to earnings (forward P/E):** a measure of the price-to-earnings (P/E) ratio using forecasted earnings for the P/E calculation.

Diversification does not guarantee a profit or protect from loss in a declining market.

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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