Semi-Annual Advisor's Report
For the Period Ended June 30, 2007

Aegis High Yield Fund

Advisor's Report

August 10, 2007

To the Trustees of the Aegis High Yield Fund:

We are pleased to present this Aegis High Yield Fund Advisor's Report, discussing the six months ended June 30, 2007. New shareholders to the Fund should feel free to study our website (www.aegisfunds.com) for more detailed information about the high-yield bond market and the Fund's investment approach. We will briefly review the objectives and strategy of the Fund:

The Aegis High Yield Fund seeks to earn consistent total returns that exceed its benchmark index over periods of three to five years, while striving for below-average risk compared to its peers. The Fund's long-term investment strategy is based on its total return objective. We use in-depth fundamental analysis of issuers to identify bonds and build a portfolio with the potential for capital appreciation due to improved company performance, ratings upgrades, or better industry conditions. We seek situations where Wall Street's appraisal of a security's value is more negative than we have determined based upon an independent study of the facts. The bonds purchased for the portfolio are not necessarily the highest-yielding issues in the market. Our goal is to maximize risk-adjusted long-term total return.

You may not be familiar with information about the high-yield bond market. If you feel that you need an introduction to the securities, please read "About High Yield Bonds" located at a tab on our Fund website, which explains some of the history of the market and its structure.

For the six months ended June 30, 2007, the Fund posted a total return of 5.36%, versus a total return of 2.86% for its benchmark, the Lehman U.S. Corporate High Yield Index. From inception at January 1, 2004, the Fund's annualized total return was 8.70% compared to 8.11% for the Lehman Index.

The weighted average maturity of the Fund portfolio at December 31 was approximately 4.7 years. The duration of the Fund portfolio was 3.59 years, compared to 4.57 years for the Lehman Index. Duration is a measure of the sensitivity of a portfolio's value to changes in interest rates. The Fund's short duration makes it less sensitive to interest rate risk than the Lehman index.

The Fund's net asset value at June 30 was $10.90 per share versus $10.69 at December 31. Income distributions totaling $0.36 per share were paid during the period. At June 30, the Fund's SEC 30-day annualized yield to maturity was 6.52%.

The Fund's outperformance for the period was attributable to continued gains early in the year in several issues that had boosted portfolio returns late in

2006. Some of the these notably strong performers during the period were Calpine, Del Laboratories, Sungard Data, Polypore and Ship Finance. Another positive factor during the first half of the year was the absence of problem credits in the portfolio, thanks to a solid economic environment and continued easy credit conditions.

The high-yield market reached its peak in early June, when the spread versus Treasuries reached an all-time low of only 241 basis points. In the following weeks, the market was toppled by a flood of news concerning losses in various securitized products, primarily those holding subprime mortgages.

While these products were somewhat remote from high-yield bonds, the spillover effects of tumbling security values did significant damage to the high-yield market and to the Fund portfolio in the past 60 days. As we will discuss, this credit squeeze is particularly severe at the moment and should dissipate in the coming weeks, but will have longer-term impacts on high-yield demand and the risk appetite of investors.

We were cautious early in the year, although it turns out insufficiently so. Now, with this summer's market correction and the Lehman Index yielding over 9%, we are willing to be more aggressive in looking for longer maturities in pursuit of locking in higher yields. As we will explain, the current market problems are exaggerated by a temporary liquidity crunch and we expect conditions to improve in the near future. We believe that this is a good time to buy high-yield bonds and to invest in the Fund.

Current Bond Market Conditions

As we have done in the past, we will describe in more detail the environment in which the Fund is operating today. Our website material notes that the modern high-yield bond market, which dates from approximately 1980, has been characterized by pronounced multi-year market cycles. We believe that monitoring these market cycles and adjusting the Fund's portfolio structure to each phase of a particular cycle is a key element of the Fund's performance.

We look at overall high-yield bond market conditions in a framework built from the following factors:

—Economic Conditions
—Credit Quality
—Yields
—Spreads
—Supply and Demand

Economic Conditions

The American economy continued on a moderate growth path during the first half of the year, with growth at just over a 2% rate. The headwinds of a poor housing market and high energy prices continued to put pressure on economic expansion. However, manufacturing continued to look better than it has in a number of years, as capacity utilization increased from 81.7% to 82.4% during the first half of the year. The weak dollar helped to improve exports, although energy costs kept the trade deficit stubbornly high. Jobs remained plentiful, with unemployment hovering around 4.5%, and personal incomes were ahead 4% from the prior year.

One of the more reliable leading indicators of economic growth is the ECRI index of leading indicators. The current index reading of 142 is very close to its all-time high of 143.9 made in early July. The 142 reading is also a notable improvement over the 136 level seen one year ago. While no indicator has proven foolproof, this broad-based index has shown past success and helps build a case for optimism entering 2008.

Another reason for optimism is the strength of overseas growth. America's subdued growth this year puts it near the back of the pack in economic performance. Asia continues to boom, Europe and Latin America are improving, and Japan shows some signs of expansion. Forecasts have dipped from the 5% global growth rate anticipated at the beginning of the year, but a solid 4% rate is still the consensus view.

Current economic conditions--with nearly full employment, moderate interest rates, mild inflation, solid business investment and expanding trade--don't seem to coincide with slumping confidence and rising fears. But in recent weeks, the expanding problems in the credit markets have clouded the outlook.

The housing slowdown and its spillover into the subprime mortgage market have caused a significant credit squeeze to develop. As we have discussed in the past, the "new finance" (of CDO's, CLO's, CDS's, etc.) has created a potential for severe market shocks. Recent heavy losses by a widespread group of institutions on holdings of complex and illiquid securities, usually funded by large borrowings, have created a short-term liquidity crisis.

Contrary to what the media has reported, the problem is not solely of potential losses on subprime mortgages. Subprime paper amounts to about 10% of the total mortgage market, and even assuming unprecedented 20% losses, the subprime mortgage writeoffs will be perhaps $200 billion. Not much for a greater than $10 trillion mortgage market.

The larger problem is the sudden aversion to risk and scramble to pay down debt. This type of market environment can soon spread into the everyday economy and cause severe damage. We have seen the Fed step in to provide funds to the banking system in recent days, and expect to see other actions in an attempt to stabilize the markets. The very high credit growth of recent years is not healthy, but a shrinkage of credit can be even more harmful.

It's our view that the credit squeeze is largely temporary, although some of its effects will be long-lasting. Subprime mortgages were certainly taken to an extreme, but the fact is that Americans owe $11 trillion of mortgage debt on homes worth $22 trillion, and they also hold $6 trillion of cash and cash equivalents. Mortgage losses will not be large enough to sink our economy, but will make future growth more difficult by ending this recent era of easy credit. While there is a risk that this credit squeeze will cause more damage than it should, the economy will make the adjustment to a more restrained borrowing environment, and that is a healthy long-term development.

Credit Quality

While credit quality, in terms of bond ratings, continued its long-term secular decline, bond defaults remained historically low in the first half of 2007. The default rate reported by Standard & Poor's ("S&P") for the year ended June was only 1.22%, an all-time low. With credit conditions so benign early in the year, even a more moderate pace of economic growth did not cause rising defaults. Distressed debt issues (those trading at prices reflecting a strong likelihood of default) fell to less than 3% of outstanding issues, down from 7% as recently as 2004. S&P is forecasting just a 1.4% default rate by the end of the year, but climbing to 3.5% by mid-2008. Given the outlook for the end of easy credit, we would expect the default rate to work its way higher toward its long-term average of 4.5% in 2008 and 2009.

As would be expected in a maturing economic expansion, the character of the debt market showed higher risk. Corporations, in an effort to spur earnings growth, raised money primarily for new investment spending and acquisitions, rather than just refinancings. Buyout firms continued to aggressively compete for acquisition targets, resulting in takeover valuations reaching all-time high levels and credit protection measures of the related financings making new lows.

The negotiating strength of issuers in a strong market early in the year was demonstrated by several issues of "toggle" bonds, securities that give the issuer the right to choose cash interest payments or payment in additional securities. The market also saw a number of "covenant-lite" loans and bond issues, borrowings that had minimal covenant protections for creditors. Also, a large number of lower-quality issues came to market, raising the CCC-rated or less portion of the market to 18% of dollar value. The floating of these marginal securities indicated that credit conditions were very lax.

A credit quality milestone was reached in June, when S&P reported that for the first time ever, a majority of U.S. corporate bond issues were rated at junk levels. According to the S&P calculations, 50.7% of bonds were rated below investment grade, while 49.3% carried investment grade ratings. The median rating in the U.S. corporate market was BB+ at June 30, compared to a median rating of A- in 1992.

With the downgrade ratio continuing to exceed 50% and economic growth subdued, at this stage of the cycle credit quality will continue to decline and we expect to repeat that message to you for at least the next couple of years.

Yields

Yields showed a slight increase in the first half of the year, with the Lehman Index beginning the year at 7.70% and rising to 8.10% at June 30. The yield on 10-year Treasury notes climbed from 4.71% to 5.02%. The market suffered a few brief bouts of inflation fears, but in recent weeks Treasury yields have dropped back to December levels as the credit squeeze brought on serious concerns about future economic performance.

July was a very difficult month for the corporate bond market, and particularly for high-yield issues as a liquidity crunch unfolded. The Lehman Index fell to the point that its yield finished the month at 9.08%, one of the biggest monthly increases of the past decade. Investors began to price in a much higher probability of default increases in the coming year and give up hope of a continuation of easy credit standards.

As the markets became unsettled during the summer, the MOVE index, an indicator of expectations of future interest rate changes, leaped to 116 from only 52 in May. This means that investors predict changes in Treasury yields of 116 basis points over the next twelve months. While that is much more volatility than was anticipated in May, the long-term average level of the index is 103. So the market is now expecting volatility closer to historic levels rather than the unusually quiet period of interest rate moderation we have seen in 2006-2007.

Inflation worries have dissipated with the tightening of market credit. The inflation-indexed Treasuries (TIPS) are trading with an expectation of 2.2% inflation over the next ten years, down from 2.4% at the beginning of the year. The Fed should be relieved to see that there is some room to ease monetary policy without setting off a revival of inflationary expectations.

Another change is the slope of the yield curve. Since late 2005, shorter-term Treasuries have been yielding more than longer-term Treasuries. This has been an indicator of an expected economic slowdown. With the recent liquidity crisis, the yield curve has now returned to its normal slope, with the yield on Treasuries of maturities less than two years about 50 basis points below the yield of the 10-year Treasury note.

The recent credit squeeze will temporarily slow the economy and the rate of growth of borrowings, but the situation should improve in 6-12 months. In this environment, we anticipate that Treasury yields will be declining over the next year, and that interest rates should remain at a moderate level (perhaps somewhere in the 4% range) for several more years into the future.

Spreads
At the beginning of this year, the Lehman Index had a 7.70% yield and the yield on the 10-year Treasury bond was 4.71%, resulting in a spread of 299 basis points. In the first half of 2007, high-yield spreads first fell to an all-time record low of 241 basis points in early June, then began a sudden climb to 433 basis points by the end of July.

Spreads widened due to the perception that credit conditions were becoming much more restrictive in the marketplace, putting more pressure on the balance sheets of leveraged or marginal businesses. The credit squeeze, because it threatened to shut down the market for CDO and CLO issues, was a serious threat to the near-term demand for high-yield issues.

At a current level of around 425 basis points, high-yield spreads have returned to a level approximating their long-term average spread of 475 basis points. We still can't say that the market is cheap on a valuation basis, but it presents better value now than a few months ago.

Spreads are partly a function of market forces, but also determined by market psychology. The most significant change that has taken place in the past few weeks is the turnabout in market psychology. The aggressiveness and "appetite for risk" that we've seen since 2004 has now been replaced by fear and widespread risk aversion. With bad news about credit losses coming out almost daily and a drumbeat of bankruptcies and foreclosures, investors are seeking safety and only considering the highest-quality securities.

This change in psychology will substantially impact spreads in the bond market, and we expect that the high-yield spread will remain above 400 basis points for some time. Spreads may even exceed 500 basis points at certain times. The fundamental troubles with various products of the "new finance" will not be fixed in the short-run, and it will take quite a period of time for investors to regain their confidence in the credit markets. In the meantime, we are being more appropriately paid for high-yield bond risks, and will earn a significantly better spread on any new portfolio investments.

Supply and Demand
We saw a very active high-yield bond market in the early months of 2007. The supply of new issues in the first half of the year was $107 billion, far ahead of the $73 billion raised in the first half of 2006. With spreads at historic lows and lenders eager to provide huge amounts of credit, the market experienced a boom.

Financing of buyouts continued to be a large part of market supply. Globally, mergers and acquisitions were an eye-popping $2.8 trillion in the first half of 2007, up from a high $1.8 trillion in the prior year period. The total high-yield financing (bonds and loans) exceeded $1 trillion globally in the six months, up from $600 billion in the comparable period of 2006.

This huge amount of supply was met by even greater demand, as spreads generally fell during most of the period. Continued rapid growth of various securitized products (CDO's, CLO's, etc.) created a robust market environment. CLO issuance was up almost 40% over the prior year, and CDO growth topped 20%.

However, gradually during June and July it became apparent that the risks involved in many of the structured products were substantially higher than investors had predicted. The market began to freeze up, and new issues could not come to market. More than 40 bond offerings were postponed or cancelled between July 1 and the first week of August.

This presented an awkward situation for the investment banks. They were committed to approximately $300 billion of contractual financings for announced buyouts, yet after the market problems in July had no way to offer the securities on the agreed terms. This "bridge" financing that was held by the banks collectively became known as the problem of the "hung bridges". These securities will likely be issued in coming months, but it is possible that several buyout deals could fail to close.

Regardless of the resolution of the bridge financings, the window for large corporate buyouts has been shut for a number of months into the future. With private equity firms being a very significant part of the new issue market this year, we are now in a situation where, while investor demand for high-yield bonds has waned in recent weeks, the longer-term supply picture has also substantially weakened.

The inability to access the high-yield market is not an immediate problem for most companies participating in the market. Relatively little debt is coming due in 2008 and 2009, and most of the outstanding debt due in recent years was refinanced to maturities in the 2011-2016 period. So there is still plenty of time for the market to work its way through this credit squeeze.

The unknown is how long it will take for high-yield market demand to recover. Supply will follow demand, without doubt. We don't believe that there will be a quick recovery in demand. However, it is important to remember how we got to historically narrow spreads in the first place--it was the relentless search for higher yields. In a world of 4% Treasury yields and still low corporate defaults, the 9% or better payouts on high-yield bonds will eventually bring yield-hungry investors back to the market.

In the short-term, market conditions will likely remain sloppy as continuing problems in structured finance, mortgages and the resolution of the "hung bridges" will weigh on the credit markets. But we believe that conditions could improve significantly by the end of the year and lead to at least a modest recovery in high-yield bonds.

Fund Portfolio Strategy

While the Fund had a very good performance in the first half of 2007, it suffered a relatively sharp correction in recent weeks and showed a negative total return of 3.68% for the month of July, somewhat worse than the negative 3.54% July return for the Lehman Index. This was a significant decline in value for the Fund based on its history, and we would like to give you our analysis of what changed in the Fund's performance since early June.

There were four factors that contributed to the Fund's negative return in July. First and most significant, portfolio holdings in the real estate and financial sectors were hit extremely hard. These securities represented about 17% of assets in the Fund.

Second and of lesser significance, we suffered net share redemptions as the market declined in June and July, and had to use a substantial amount of our cash holdings to meet these redemptions. This left us without the protection of a cash cushion during the market correction.

Third, we had a few modest declines in issues that were involved in recent merger activity as the market became worried about the funding of buyouts. Finally, like other funds, we saw security values fall due to the general decline in the high-yield market.

The third and fourth factors were not major reasons for the Fund's decline, adding probably less than one percent to the negative return. By themselves, they were not particularly noticeable in the Fund's overall performance.

The second factor also impacted the Fund by less than one percent. As the market declined, we chose to use most of our cash to meet redemptions rather than raising new cash by selling bonds into a difficult market. This decision hurt our performance in the short run as we were more exposed to the market decline, but it saved the Fund some trading costs and left us in a fully invested position to benefit from an anticipated near-term recovery.

The most significant portfolio problem was our exposure to the real estate and financial industries. We had purchased some housing-related bonds in the past year that represented about 6% of the portfolio and earlier in 2007 made investments in financial companies that comprised about 8% of the portfolio. As the news recently became more bleak about the mortgage and homebuilding industries, these securities suffered in value. Their current prices, in our opinion, do not properly reflect the long-term values of the issues, but for the moment that's where the market is.

While we were aware of the building risks in the financial environment, it is clear that we did not sufficiently anticipate the early arrival and severe impact of this credit squeeze. In that, at least we are in good company, as the sudden problems at Bear Stearns and Goldman Sachs illustrate.

At the same time, we are managing the Fund to maximize its long-term total return, and we make an effort to stay focused on longer periods of time. We don't believe it is in your best interests for us to go running for the hills every time that a guy wearing a black hat rides into town. We view this period as a short-term market adjustment, not a major cyclical decline, and we try to draw careful distinctions between any temporary market price declines and a potential permanent loss of capital.

If we have done a proper analysis of our securities when purchased, then most should weather market storms like this one. We do have our share of errors, but we feel comfortable that the portfolio is comprised of securities that as a group represent solid long-term value.

We cannot predict when the worst of this credit squeeze will pass, and we would forecast that it will be with us for at least a few more weeks. But the Fund is now virtually fully invested in securities with attractive potential long-term returns, and we are looking for any better opportunities that the market might present to us. We have been cautious about the market outlook for the past two years due to the risky credit environment, but now that the risks are more fully reflected in available yields, we feel more comfortable about the outlook and don't mind becoming more aggressive.

Conclusion

We appreciate your support of the Fund and hope that you will continue to view it as an important part of your investment plan. Like any long-term investment, the Fund will have some periods of strong returns and some periods of weak returns. We will try to maximize the former and minimize the latter, of course, but above all will stay focused on the long-term outlook for the portfolio.

This is a difficult time, but indications are that it is only a temporary setback. There will be a period of unwinding of excess leverage in the financial system, and while it is a painful process, it is a very positive development for the long-term health of the bond market. As we mentioned last time, the past few years have been a struggle to generate high returns in a period of narrow spreads, but the job should be a bit easier as the market pendulum swings back from bond issuers to bond investors.

We believe that the Fund represents real value, and expect that value to be realized over longer periods of time. Even with the dip in July, the Fund still maintains its ranking in the top decile of high-yield funds for the trailing three years as listed on *Morningstar.com*. With its share price now back to a level not seen since April 2006, we hope that you will consider adding to your investment in the Fund in the coming weeks.

We want to mention to you again that we eat our own cooking. We are substantial investors alongside you in the Fund. The Fund portfolio manager and fellow employees of the Advisor with their families have held investments of well over $1 million in the Fund, and therefore personally share in a significant way in the Fund's future performance. The portfolio manager and other employees of the Advisor and their family members have added to their holdings of Fund shares in recent weeks. We believe that the current market weakness presents an attractive opportunity.

Thank you for your confidence in the Fund and we look forward to sharing a rewarding future with you.

Aegis Financial Corporation
William S. Berno, CFA
Managing Director, Portfolio Manager

Notes: All historical performance returns shown in this Advisor's Report for the Aegis High Yield Fund are presented on a pre-tax basis. Returns include reinvestment of income and capital gains. Past performance is no guarantee of 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. The Fund has an annualized expense ratio of 1.20%.

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