Semi-Annual Advisor's Report
For the Period Ended
June 30, 2008

Advisor's Report

August 11, 2008

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, 2008. 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 month period ended June 30, 2008, the Fund posted a total return of –1.40%, versus a total return of –1.31% for its benchmark, the Lehman U.S. Corporate High Yield Index. From its inception at January 1, 2004, the Fund's annualized total return was 5.32% compared to 5.71% for the Lehman Index.

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* *Aegis High Yield Fund's one-year, three-year and since inception (1/1/2004) average annual returns for the period ending June 30, 2008 are –5.72%, 6.11% and 5.32% respectively. Returns include reinvestment of income and capital gains. All historical performance returns shown in this Advisor's Report for the Aegis High Yield Fund are presented on a pre-tax basis. 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 of 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%. Investors may call 1-800-528-3780 or go to the Fund's website www.aegisfunds.com to obtain performance data current to the most recent month end.*

The weighted average maturity of the Fund portfolio at June 30 was approximately 3.9 years. The duration of the Fund portfolio was 3.24 years, compared to 4.51 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 $9.43 per share versus $9.93 at December 31, and the Fund's SEC 30-day annualized yield was 9.59%. Income distributions totaling $0.36 per share were paid during the six months.

The downturn in the credit markets that began in mid-2007 continued during the first half of 2008. Increasing concerns about recession, credit quality, and market liquidity as well as a persistent rise in energy and commodity prices caused high-yield bond prices to decline during the period.

Credit spreads widened substantially early in the year on rising economic fears, and then a tentative market recovery following the collapse of Bear Stearns in March ran out of steam during the month of June. High yield bond spreads, at approximately 700 basis points, are now significantly above their long-term average of approximately 475 basis points. Distressed issues and defaults have been rising, and will probably not peak for another 12 – 18 months, but yields are far more attractive today than a year ago.

The Fund's portfolio performed generally in line with the broad high-yield market, showing a slightly negative total return for the period. Performance was hampered by continuing poor performance in its financial and housing-related holdings, but was helped by the solid performance of its investments in industrial and energy issuers and the portfolio's relatively short maturity and duration.

While the next few quarters will likely continue to show volatility, we are becoming more positive about the outlook for returns over the next 3 – 5 years. We believe that much of the damage from this downturn is behind us, and in the coming months we will be working to position the Fund for the eventual upturn that we expect to see in 2009 or 2010. We are planning to gradually move toward longer maturities and higher duration in the Fund portfolio. These are the characteristics that will allow the Fund to achieve superior returns in a stronger market environment.

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 national economy has been struggling in recent months, and it is doubtful that it can avoid recession during the coming year. In addition to the problems in the housing market, which are severe but directly affect only about 10% of American households, the significant rise in energy and food costs affects all American consumers and appears to be causing more damage to economic growth this year than the housing downturn.

Substantial problems in the banking system also continue to hamper growth. Banks are scrambling to raise lending standards, reduce risks and build capital. The liquidity in the banking system has plummeted, forcing the Fed to institute a short-term auction facility that is now providing $150 billion to banks to bolster reserves. Tightening credit conditions, tied to mortgage and other lending problems, will remain an obstacle for many months.

Home prices continue to decline, the latest figures showing a 15% drop over the past year. In 2005, Americans had home equity exceeding 60% of home value, but now that figure is down to 46%. Housing starts have fallen to a 970,000 unit annual pace, the lowest level of activity since 1991.

The decline in wealth from falling home equity is damaging to consumer spending, as evidenced by the fact that retail sales are almost flat (well below the inflation rate) and new car sales have been running at a pace of only 13.5 million units compared to a normal 16-17 million units.

Higher oil prices have also hurt economic prospects. Oil is up over $50 per barrel in the past year, and that is costing U.S. consumers more than $400 billion annually in increased energy costs. To make matters worse, this is a real daily cash outflow, as opposed to the paper net worth declines from lower home values and a weak stock market.

This combination of factors has put stress on the economy, with unemployment claims approaching recession levels of 500,000 per week and planned layoffs up over 50% from a year ago according to employer surveys.

As we've mentioned in recent reports, manufacturing and exports have been the bright spot in the economic picture. Capacity utilization has slipped below 80 in recent weeks, but that is only because of significant cutbacks by automakers. Other manufacturing, particularly related to mining and agriculture, continues to be robust. Export growth has remained strong due to the continuing weak dollar.

In recent weeks, energy and commodity prices have declined and may at least temporarily be at the end of their rally. This will be a great help to consumer confidence and corporate profit margins.

We have mentioned before the ECRI index of leading indicators. The index is currently at 128, down from its high of 144 a year ago but not far below its 131 level of six months ago and well above the 113 level it hit during the 2001 recession. The index is currently in mild-to-moderate recession territory and has not yet begun to show signs of an upturn in coming months.

However, activity is now so abysmally low that the next cyclical upturn is coming into view. Look at the figures we mentioned above for auto sales and housing starts. Simple replacement demand in the U.S., not even factoring in any future growth, runs at almost 15 million automobiles and 1.2 million homes per year. So things should get better over the next several years.

We are not too hopeful about the coming 12 months, but are getting more encouraged about the possibility of a strong upturn in the 2010-2012 timeframe. The trigger will be an eventual stabilization in home prices—that will help bring an end to the credit squeeze and launch the next upswing.

Credit Quality

As would be expected in a faltering economy, credit quality has deteriorated in the most recent period. Corporations, like households, have been hurt by higher energy and commodity costs. Economic weakness has made it difficult for companies to raise prices to offset their higher costs, hurting operating profit margins and corporate cash flow.

According to Moody's, the trailing twelve-month default rate for June was 2.43%, compared to the extremely low 0.88% rate in December 2007. Moody's is forecasting the default rate for June 2009 to rise to 6.90%. This seems reasonable given that the long-term average default rate is about 4.50% and the economy is in a slowdown.

As we've mentioned before, a leading indicator of defaults is the level of distressed debt in the market—issues yielding 10% or more above the comparable Treasury yield. A year ago, distressed debt was only about 2% of the high-yield market. Today, distressed issues are 25.6% of the market, according to Merrill Lynch. This is significant, because distressed issues have historically shown a one-year default

probability of 23.5%, according to calculations published by *Leverage World*. So distressed issues alone would be expected to cause a default rate over 6% in the coming year.

Another statistic is the number of ratings upgrades and downgrades during the quarter. Standard & Poor's reports that it downgraded 170 issuers in the first quarter of 2008 and 183 issuers in the second quarter, the highest rates of downgrades since late 2003. In comparison, S&P upgraded 72 and 108 issuers in each quarter. This is one more sign of economic stress.

But like some other trends, the recent credit quality figures for new high-yield issues show some reason for hope. In the first half of 2007, the percentage of new issues rated B– or lower (the most speculative ratings) was an unprecedented 47.4% according to figures from Prof. Edward Altman at NYU. So far in 2008 the percentage of low-rated new issues is only 11.5%, far below its average of 39% for the 2004-2007 period. This trend, which we expect to continue for many months, is a precursor of substantial improvement in credit quality over the next several years.

Yields

Treasury note yields were relatively flat during the first half of the year, with the 10-year note showing a slight decline in yield from 4.03% to 3.97% during the period. The market appeared to be stalemated by fears of a deep recession on the one hand, and fears of higher inflation on the other. Fed interest rate policy, after a quick succession of rate cuts early in the year, has become stable in recent weeks.

This fits into our scenario of an extended period of relatively low interest rates on Treasuries and short-term instruments. We expect these yields to remain in the 2-4% range for the next year or two, and possibly longer if the economy is slow to recover. There will likely be some volatility in yields, but we believe that it will be several years until the economy is strong enough to sustain significantly higher interest rates.

Volatility has increased over the past year as the MOVE index, a measure of the expected volatility of Treasury yields, now stands at 126 basis points, an increase from only 52 basis points in May 2007. This is a reflection of greater uncertainty in the market about the future course of the economy. Rates have vacillated between declines on weak economic news and upswings on worries about inflation.

We try to keep an eye on TIPS yields, the inflation-indexed Treasuries. Interestingly, given all the headlines about rising prices, TIPS securities are now forecasting a ten-year inflation rate of only 2.36%. This rate falls squarely in the same 2.3 – 2.5% range that TIPS yields have indicated over the past three years, despite the huge increases we have seen in energy, food and other commodity prices during that period. The behavior of TIPS also seems to indicate that the economy may be in recession longer than anticipated.

The Lehman Index yield climbed from 9.64% to 10.89% during the first half of the year. High-yield bonds suffered from declining liquidity in the market and a looming increase in defaults. The market did particularly poorly during the first quarter of the year, a period culminating with the collapse of Bear Stearns and a crisis in the credit markets in March.

Yields are now at levels not seen since 2003 and are above the 9.8% average yield on high-yield bonds during the past decade. While we think yields may continue to increase somewhat over the next few quarters, we are in a position where the compounding effects of higher available coupon yields will help to cushion any further market declines.

Spreads

As of June 30, the Lehman Index had a yield of 10.89% and the ten-year Treasury note was yielding 3.97%. The resulting spread of 692 basis points was a substantial increase from the 561 basis points at the beginning of the year. High yield bond spreads, are now significantly above their long-term average of around 475 basis points.

The past year's credit crunch has caused wide spreads not just in high-yield bonds, but in virtually all sectors of the fixed income markets. From overnight rates on bank funds to yields on CDOs, spreads on many instruments are at levels that are unprecedented in the past decade.

We mentioned a couple of years ago that the "appetite for risk" was causing spreads to decline. In the past twelve months, the "appetite for safety" has resulted in investors refusing to take even slight credit risk without an ample interest rate spread as compensation. High-grade corporate bonds, which have typically traded about 100 basis points above Treasuries, are now around a 250 basis point spread—ironically wider than high-yield bonds were trading in May 2007.

The products of the "New Finance" — the CDOs, CLOs, credit default swaps and other derivatives and "structured products"—are exacerbating the credit squeeze by obscuring the true balance sheet strength (or weakness) of major financial institutions. The money markets have seized up and have been propped up by funds from the Fed because no one is quite sure who might be the next Bear Stearns, and institutions cannot afford to take a loss on their short-term funds when liquidity is so crucial to their operations.

This problem will continue for several more quarters. Fortunately, there is light at the end of the tunnel. Many of these products are tied at least indirectly to mortgages, and therefore to home prices. Investors will continue to fear losses as long as home prices are falling. However, once there is evidence that housing has stabilized, we expect

investors to feel like they can finally get their arms around the problems, and confidence will begin to return. We would anticipate that this will happen in the next 12 – 18 months.

It's reasonable to forecast that spreads will widen over the next year or so because defaults will be climbing. But further out in the future we believe that spreads will move to much tighter levels as investor confidence returns, providing significant total returns for high-yield investors.

Supply and Demand

We earlier mentioned the better quality of new issues in the high-yield market this year. The market, not surprisingly, has also seen a very diminished supply of new issues. The issuance in the first half of 2008 was only $43.8 billion compared to nearly $100 billion in the first half of 2007. Bonds were placed at a disadvantage when underwriters focused on unloading their pile of buyout loans, the "hung bridges" that we referred to a year ago.

When the credit crunch hit last summer, banks were sitting on about $300 billion of leveraged loans that had been made to fund some of the large buyout deals of 2006 and 2007. They have attempted to sell these loans to outside investors, primarily hedge funds, to reduce their risks and free up capital on their balance sheets. This has been a long process, and S&P now estimates that the backlog of loans remains at about $75 billion.

The effect on the market has been to crowd out bond issuance in favor of sales of leveraged loans. The large supply of these loans and the rise in their yields to attract buyers has also been a factor in the widening of spreads on high-yield bonds. Bonds and loans in many cases compete for the same investment funds. Loans have the advantage, because they are generally the senior secured debt on the issuer's balance sheet, and therefore safer.

Banks at first were reluctant to take any significant losses on these loans and some were unwilling to sell at prices around 92-94 cents on the dollar. Now that prices are often in the 80-85 cent range, the sellers have no choice but to take large losses if they enter the market. The decline in prices also results in markdowns of the values of the CLOs that hold leveraged loans. These are the circumstances that have contributed to the huge writedowns of nearly $500 billion at financial institutions around the world in the past year.

The overhang of loans, while smaller now, will still pressure the market with extra supply for a few more months. But with base demand for high-yield bonds around $120 billion per year just to reinvest income and replace maturities, this year's lower supply and a likely constrained supply in 2009 will help the market find support.

Demand for bonds is currently far below long-term trends. Investors are maintaining higher cash balances and postponing investment. Many of the typical buyers (hedge

funds, mutual funds, insurance companies) have lower available liquidity or investment losses that are reducing their ability to invest in the credit markets.

The issuance of CLOs and CDOs has plummeted, down about 70% from the prior year. These entities bought almost half of new loans and bonds in 2006 and 2007, and created much of the incremental demand that drove the market rally in the 2004-2007 period. We do not expect them to be a significant market factor again for at least a few more years, if ever. They showed their greatest success during the very low interest rate environment of several years ago, and there is a question whether they can be structured appropriately to be truly viable long-term securities for institutional investors.

As with some of the other factors that we have reviewed, the outlook for supply and demand is not bright for the coming year. Yet, like some of the other factors, there are trends moving into place such as the liquidation of the leveraged loans and the small current supply that point to a better market environment in the 2010 – 2012 period.

Fund Portfolio Strategy

The Fund had a negative return for the first half of 2008, a decline of 1.40% that was closely in line with the return of the Lehman Index. A few issues in the portfolio, principally related to finance or housing, had difficult struggles during the period. For the most part, the Fund holdings in manufacturing and energy issues did well. But even these segments of the portfolio were not able to show significant returns in a very tough market environment.

The Fund continues to hold a low cash balance to take advantage of the attractive spreads that are available in the market, and the Fund's SEC 30-day annualized yield to maturity was 9.59% at June 30. This is substantially higher than the 6.52% figure from a year ago.

The high-yield bond market has become more illiquid and difficult to trade, so we have kept portfolio turnover at a low level so far in 2008. Thus the Fund's average maturity has declined from 4.7 years to 3.9 years and over one-third of the portfolio now has a maturity of less than three years. We are hopeful that we will be able to roll over these maturities at much higher yields for longer terms as the cyclical downturn continues.

During its history, the Fund has consistently maintained a lower duration than the Lehman Index. At June 30, the Fund duration was 3.24 compared to 4.51 for the index. This strategy is appropriate when yields are rising, as a shorter duration portfolio will hold its value better in that environment.

As yields begin to decline, the highest returns are earned by the highest duration portfolio. Duration is heavily influenced by maturity, so locking in attractive yields for long maturities (assuming credit quality is the same) gives a boost to portfolio

performance. This will be our strategic shift over the next 12-18 months—to gradually move the portfolio toward a duration that is higher than the Lehman Index.

As we've mentioned in reviewing market conditions, the downturn is very likely to continue and, while volatility will continue from month to month, we don't expect much improvement over the coming twelve months. However, the factors and trends that will lead to a greatly improved market environment in two or three years are becoming evident. Supply will remain below average, aggregate credit quality will begin to improve, liquidity will gradually return, spreads will remain attractively high and corporate cash flows and balance sheets will begin to strengthen. These are normal cyclical forces, and each market downturn sows the seeds of the subsequent upturn.

Our job will be to earn satisfactory returns over the next several quarters while we gradually begin to position the Fund more aggressively to benefit from the expected market upswing that should appear in 2009 or 2010. This will be accomplished to some extent by rolling over our maturing portfolio holdings into higher yields and longer maturities. We also will be watching for opportunities to move a portion of our assets into more attractive total return situations. As we follow this strategy, a year from now we should be reporting to you a noticeably longer duration in the Fund portfolio.

The financial markets have been very difficult during the past year. We view this downturn as the type of major market correction that may only occur once or twice in a period of twenty years. The simultaneous combination of energy shock and housing crisis is unprecedented.

But oil prices, which nearly doubled this year, are highly unlikely to nearly double again next year. Housing prices, now down almost 20% from their peak, are highly unlikely to drop 20% again next year.

Things will improve, and we are excited about the long-term outlook.

Conclusion

For several years we have discussed the cyclical nature of the high-yield bond market. While the Fund has had periods of strong returns, this past year in contrast has been its most difficult challenge. It is never pleasant to report a negative return, and we will do what we can to be sure that the Fund's performance regains positive momentum.

We appreciate your investment in the Fund and hope that you continue to view it as a long-term holding. We encourage investors to focus on mutual fund returns for periods of three years, five years, or even longer. Even after the past year's difficulty, the Fund's trailing three-year return of 6.11% at June 30 is competitive with other alternatives for your investment capital. We continue to believe that returns over the next 3-5 years could be very rewarding to Fund shareholders.

It is not possible to forecast the exact bottom of this market cycle, but the Fund's current interest yield is now close to 8%—a level that will help cushion any further decline in value. There will come a point when the risk of a further decline is far outweighed by the attractive returns to be earned in the next upswing.

We again want to emphasize to you that we are substantial investors with you in the Fund. The Fund portfolio manager and fellow employees of the Advisor with their families hold investments of well over $1 million in the Fund, and therefore share significantly in the Fund's future performance.

While we anticipate some volatility and rising defaults for the next few months, we are "looking over the valley" and staying focused on generating long-term superior performance from the Fund portfolio. Thank you for your confidence in the Fund and we look forward to sharing a gratifying future with you.

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

The Aegis High Yield Fund is offered by prospectus only. Before investing in this Fund, investors should carefully consider all risks of investing in: bonds in general, junk bonds and bonds of foreign issuers. Investors should consider the Fund's investment objectives, risks, charges and expenses. The prospectus contains this and other information about the Fund. Investors can obtain a copy of the Fund's prospectus by downloading it from the Fund's website www.aegisfunds.com or by calling 1-800-528-3780. Investors should read the prospectus carefully before investing or sending money.

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Date of first use: August 29, 2008

Fund distributor: Rafferty Capital Markets, LLC

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