

April 9, 2008

Dear Value Investor:

The market environment was very difficult in the first quarter of 2008. Although the Aegis Value Fund dropped 2.0 percent over the quarter, it outperformed its primary benchmark, the Russell 2000 Value Index, which fell 6.5 percent.

### Aegis Value Fund Performance Summary as of March 31, 2008

	Quarter Ended 3/31/2008	Annualized Return			
		1 Year	3 Year	5 Year	Since Inception (05/15/98)
Aegis Value Fund	-2.0%	-16.2%	3.7%	12.7%	12.0%
Russell 2000 Value Index	-6.5%	-16.9%	4.3%	15.5%	7.7%

*Performance data quoted include reinvestment of income and capital gains and are presented on a pre-tax basis. 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. For performance data current to the most recent month end, please call us at 800-528-3780 or visit [www.aegisfunds.com](http://www.aegisfunds.com). The Fund has an annualized expense ratio of 1.38%.*

Fund performance remains slightly behind the Russell 2000 Value performance for the 3- and 5-year periods due to the Fund's defensive positioning in cash during these periods. The table below compares performance versus several other indices, including the "Under Tangible Book Value" indices we introduced to you in our letter dated January 14, 2008. As the table below shows, the market decline broadened in the first quarter. The large growth indices which did so well in 2007 experienced steep reversals in the first quarter, while the deep value indices generally continued the steep declines that began in mid-2007. Fortunately, the Fund has been able to navigate the worst of the recent carnage in deep value small-cap stocks.

### Table: Recent Characteristics and Performance of Index Portfolios

Portfolio	Average Market Cap.	Price/Book	Returns	
			Year 2007	Q1/2008
Nasdaq 100 Index <sup>(1)</sup>	\$67,300 M	4.2	20.4%	-14.5%
Russell 1000 Growth <sup>(2)</sup>	\$68,700 M	3.7	11.8%	-10.2%
S&P 500 <sup>(1)</sup>	\$98,500 M	2.6	5.5%	-9.4%
Russell 2000 Value <sup>(2)</sup>	\$1,154 M	1.4	-9.8%	-6.5%
S&P 600 Pure Value <sup>(1)</sup>	\$603 M	0.9	-18.6%	-2.5%
Russell Microcap Value <sup>(2)</sup>	\$371 M	1.3	-13.1%	-7.4%
Index: Deep-Value, Under 1.2x Tangible Book Value <sup>(3)</sup>	\$705 M	0.8	-26.0%	-7.4%
Index: Deep-Value, Under 1.0x Tangible Book Value <sup>(3)</sup>	\$706 M	0.7	-31.6%	-8.7%
Aegis Value Fund <sup>(4)</sup>	\$382 M	0.6	-8.2%	-2.0%

Source:

1. Bloomberg; valuation data for QQQQ, SPY, and RZV as of 4/8/08

2. russell.com; valuation data as of 03/31/08

3. Indices built by Aegis Financial Corp to simulate passive, equal-weighted investment in the low price-to-book equity universe; greater than \$70 mil market cap.; rebalanced quarterly

4. Aegis Financial Corp.

### Investment Commentary

The news over the last several months has been filled with stories of banks and investors taking big losses. Having absorbed over \$208 billion of credit related write-downs and mark-to-market loss adjustments so far, many banks are now scrambling for liquidity. Over the past several years these institutions had become addicted to a vast supply of liquidity from investors in securitizations. Such liquidity rapidly disappeared, as the subprime crisis led investors in securitized assets to suddenly become fearful of any credit risk. We suspect that the removal of so much liquidity from leveraged institutions has indirectly impacted equity markets. Many of these institutions have recently liquidated holdings of equity securities to meet increased capital requirements imposed by lenders in order to avoid forced liquidations of their severely stressed levered credit portfolios. Keeping enough equity capital available to avoid margin calls is paramount at the moment, as banks and hedge funds struggle to avoid the fate of Carlyle Capital Corporation, Peloton Partners LLP, Bear Stearns, and many others who haven't made the headlines.

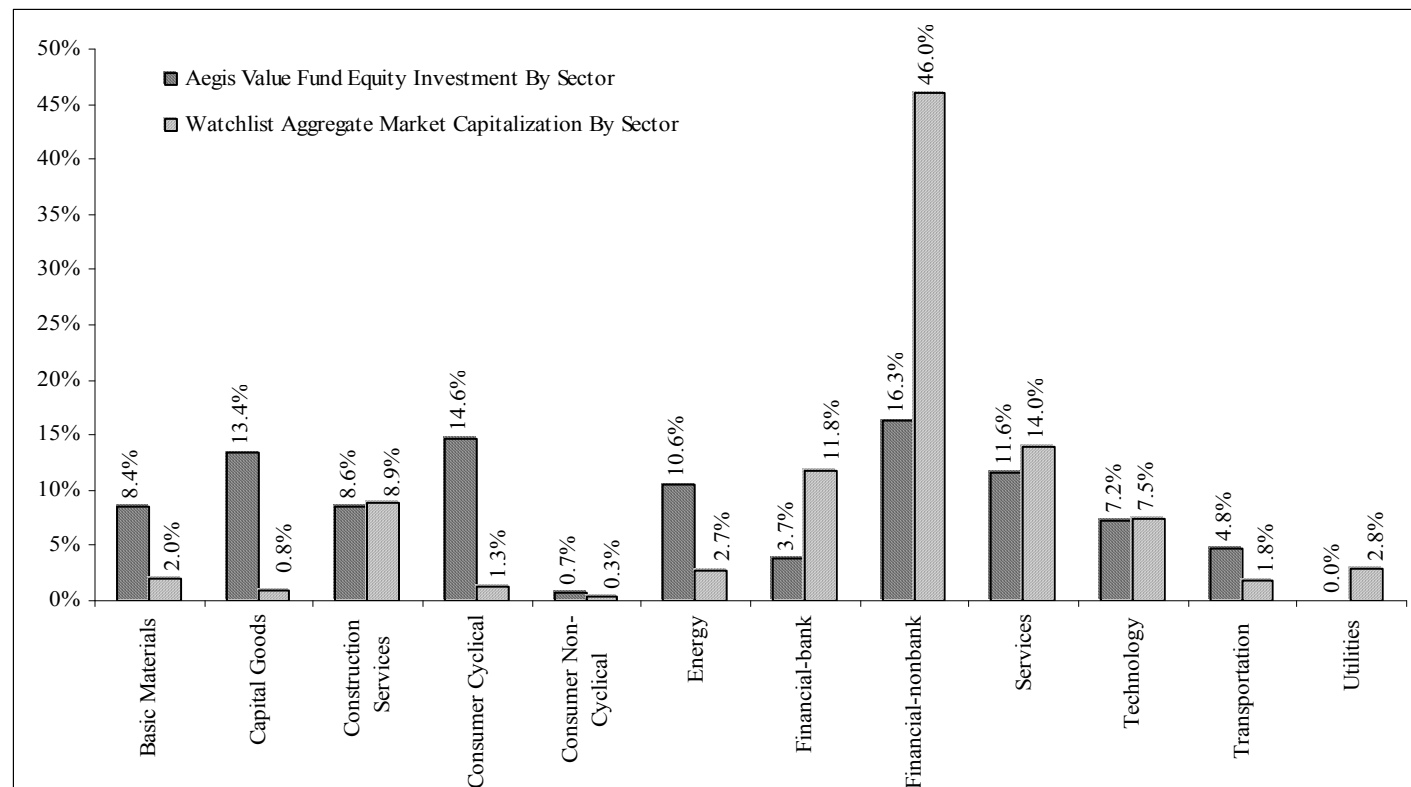
In addition, we have continued to observe data points indicating that leveraged quantitative equity funds are continuing to unwind. As we mentioned in our January letter, this de-leveraging contributed over the last 9 months to intense selling of deep-value small caps, a market segment heavily weighted in popular fundamentally focused quantitative algorithms. While much of the data regarding these funds is private, we have gleaned a few details from press reports. Assets in AQR Capital Management's largest quantitative hedge fund, the Absolute Return Fund, were reportedly down to \$2.9 billion in January from \$4.0 billion in the 4<sup>th</sup> quarter. This fund had continued to suffer performance losses of 15 percent year-to-date through February 15<sup>th</sup>. Assets in the Renaissance Institutional Equities Fund (RIEF), arguably the largest of the quant funds, experienced redemptions of as much as a third of its assets in recent months. The fund held a reported \$18 billion in assets in March, down from a peak of \$28 billion in August of 2007. Year-to-date through March RIEF is reportedly also down 6.6 percent.

From our vantage point, the pressure on equities peaked in mid-March in the days leading up to the Fed-backed sale of Bear Stearns to JP Morgan. Bear narrowly averted a bankruptcy filing after secured lenders lost confidence in the broker and began pulling lines. After the Bear/JP Morgan deal was announced, the Federal Reserve, in a massive policy shift, took nearly \$30 billion of Bear's assets onto its balance sheet and perhaps more significantly allowed all the remaining major brokerage houses to borrow directly from the Fed lending window. We witnessed a significant easing of the pressure on equities following this move.

While the main stories in the market during the quarter revolved around liquidity and "de-levering," the constant drumbeat of media stories about recession and increased market volatility left investors skittish. Individuals reacted by reducing risk, pulling a sizable \$100 billion from equity funds during the quarter. Money funds, despite their increasingly low yields, continued to see record inflows, capturing \$140 billion of investor money in the first quarter of 2008, a large sum when considering that money funds only saw inflows of \$240 billion in all of 2007. Money fund balances have now grown 75 percent since the end of 2005. Treasury yields plunged as risk-averse investors piled in for safety. We now see Treasuries, with their negative real interest rates, as a particularly poor investment given the bargains in the equities market. The cash level of the Fund now stands at approximately 5 percent, versus the average of about 21% throughout last year.

While we are not happy that the Fund declined during the quarter, we are pleased to see that the Fund generally held its value, declining only 2 percent during a volatile and treacherous time in the markets. While our stock-by-stock fundamental analysis played a principal role here, one general theme underlying our market stability in the quarter is that the Aegis Value Fund was significantly underweight in the highly levered financial sector. This can be seen in Figure 1 below, which compares the Aegis Value Fund industry weights to that of the deep-value discount-to-tangible-book universe. The financials owned by the Fund generally have solid funding and significantly lower leverage ratios than the 25-35 times debt to equity ratios prevalent at many of the headline-grabbing financial firms. We understand that a slight decline in asset value can wipe out shareholders' equity fairly quickly when companies are highly levered in this manner. Our discipline in this area served us well during the first quarter.

**Figure 1: Aegis Value Fund and Watchlist Sector Breakdown (as of March 31, 2008)**

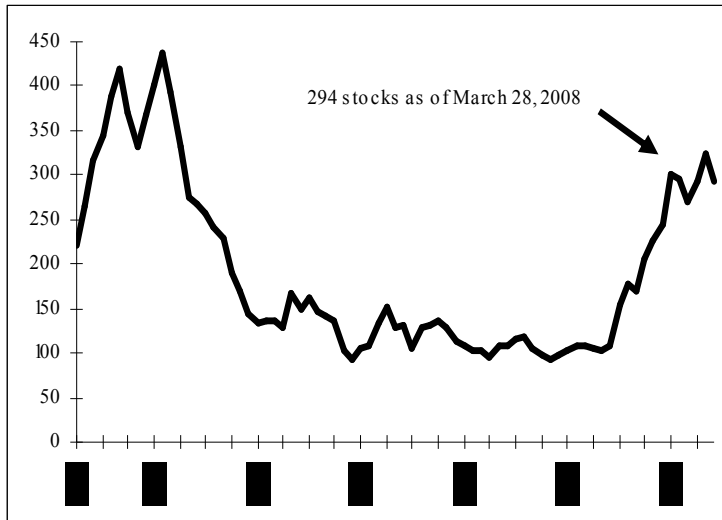


Source: Aegis Financial Corp. and Stock Investor Pro. Watchlist is comprised of all companies with market capitalization greater than \$70 Million trading at less than tangible book value.

## Looking Ahead

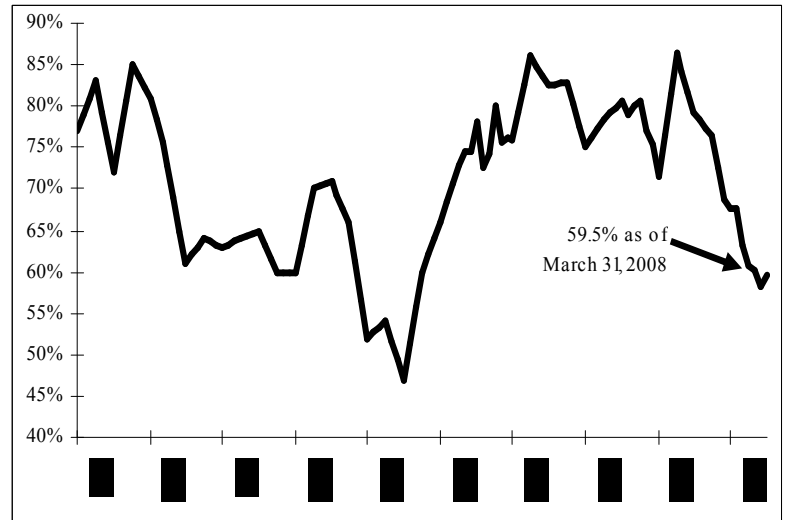
Despite the market difficulties over much of the last year, we continue to be optimistic about future performance. While the markets may remain anxious for some time, we are increasingly optimistic that the economy will successfully ride out the damage in the banking system. And while it is impossible to be entirely certain, we believe that much of the redemption and de-leveraging pains that have been inflicted on the deep-value small-cap markets in recent months are now likely to fade. Investors will once again focus on stock fundamentals.

**Figure 2: Number of Stocks Selling Below Tangible Book Value (Market Capitalization Greater Than \$75 Million)**



Source: Stock Investor Pro.

**Figure 3: Aegis Value Fund Historical Price-to-Book Ratio**



Source: Aegis Financial Corp.

Amidst the market rubble, deep value stocks have been left trading very cheaply. As can be seen in Figure 2 above, market declines since mid-2007 have nearly tripled the number of stocks on our watchlist, which stands at 294 stocks at the end of the first quarter. While many of these companies are distressed assets with significant operating and financial challenges which we try to avoid, there are now a growing number of companies trading at distressed prices that are not distressed assets. As can be seen in Figure 3, over the last year, given price declines and portfolio redeployment, the Aegis Value Fund holdings now trade at less than a weighted average 60 percent of book value, among the cheapest levels we've seen in the nearly 10-year life of the Fund. While the economy is certainly facing stronger recessionary headwinds than it has in the past, many of our holdings are already well-priced for a significant economic slowdown.

Given the tremendous negative sentiment and continuing headline risk, there is now a record \$3.5 trillion of investor money sitting on the sidelines in low yielding money-funds awaiting a comforting market rebound to reinvest. Additionally, a declining dollar has impacted America's reputation as a safe haven for international investors. These trends are working to minimize the competition we face in purchasing U.S. deep-value stocks, and are providing investors an excellent entry point for new capital. While it is impossible to predict the exact bottom or timing of a turnaround in deep value stocks, we are positioning the Fund for strong performance when this occurs, while keeping a keen eye on risk management through this period. We remain deeply invested in the Fund. Employees and our families hold over \$10 million of Fund shares, so you can rest assured we understand the importance of capital preservation as well as growth.

Should you have any questions about our performance, our investment positions, or our views on the current economic environment, please visit our website at [www.aegisvaluefund.com](http://www.aegisvaluefund.com) or call us at 703-528-7788. For routine account matters, our shareholder services reps are available via telephone at 800-528-3780.

Sincerely,

Scott L. Barbee  
Portfolio Manager  
Aegis Financial Corporation

*The Aegis Value Fund is offered by prospectus only. Investors should consider the Fund's investment objectives, risks, charges, and expense. The prospectus contains this and other information about the Fund and should be read carefully before investing. To obtain a copy of the prospectus, please call us at (800) 528-3780, or visit our website at [www.aegisvaluefund.com](http://www.aegisvaluefund.com), where an online prospectus is available.*

Date of first use: April 10, 2008.

Fund Distributor: Rafferty Capital Markets, LLC