AEGIS / VALUE FUND

Portfolio Manager's Letter
Quarter Ended June 30, 2008

July 14, 2008

Dear Value Investor:

The difficult market environment that began a year ago persisted into the second quarter of 2008. Fortunately, the Aegis Value Fund was well-positioned, returning a positive 3.6 percent during the quarter while the S&P 500 Index lost 2.7 percent. The Fund's primary benchmark index, the Russell 2000 Value Index, dropped 3.6 percent. Energy stocks, comprising 14.7 percent of Fund assets at June 30, were strong performers during the quarter, bolstering Fund returns.

Aegis Value Fund Performance Summary as of June 30, 2008

		Annualized Return				
	Quarter Ended 6/30/08	1-Year	3-Year	5-Year	10-Year	Since Inception (5/15/98)
Aegis Value Fund	3.6%	(17.4%)	4.0%	9.3%	12.5%	12.0%
Russell 2000 Value Index	(3.6%)	(21.6%)	1.4%	10.0%	7.5%	7.1%

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. The Fund has an annualized expense ratio of 1.42%.

During the last 12 months, many equity investors have experienced heavy losses. While we were not able to shield investors entirely from market declines, our Fund's high cash position as we entered the turmoil a year ago and our early decision to steer clear of most levered financial stocks, now at the epicenter of the market turmoil, helped the Fund avoid the worst of the damage in the deep value small-cap segment. The table below illustrates the continuing negative performance of this universe, showing returns of indices of deep value small-cap stocks during the last year. This sector, which has historically demonstrated significantly superior returns, dramatically underperformed the overall markets over the last 12 months. Heavy forced selling of small value stocks by levered quantitative strategy hedge funds experiencing margin calls and investor redemptions was a major factor in the declines seen in the sector.

While navigating through market declines is difficult, investors should keep in mind that over the last 10 years, through good times and bad, the Fund has returned 12.5 percent annually, nearly 500 basis points per year in excess of the Russell 2000 Value Index benchmark. The Fund has outperformed the broader S&P 500 Index by an even more significant margin of 960 basis points annually.

Table: Recent Characteristics and Performance of Index Portfolios

			Investment Returns		
Portfolio	**Average Market Cap.**	**Price/Book**	**Q2/2008**	**Trailing 6-Mo as of 6/30/08**	**Trailing 1-Yr as of 6/30/08**
Nasdaq 100 Index [1]	$44,818 M	6.5	3.1%	-11.9%	-5.0%
Russell 1000 Growth [2]	66,486 M	4.1	1.3%	-9.1%	-6.0%
S&P 500 [3]	90,090 M	2.4	-2.7%	-11.9%	-13.1%
Russell 2000 Value [2]	931 M	1.3	-3.6%	-9.8%	-21.6%
S&P 600 Pure Value [3]	571 M	0.8	-13.2%	-15.4%	-34.2%
Russell Microcap Value [2]	272 M	1.1	-7.7%	-14.5%	-28.1%
Index: Small-Cap, Under 1.2x Tangible Book Value [4]	964 M	0.8	-11.2%	-17.8%	-38.1%
Index: Small-Cap, Under 1.0x Tangible Book Value [4]	867 M	0.6	-13.3%	-20.8%	-43.6%
Aegis Value Fund [5]	399 M	0.7	3.6%	1.5%	-17.4%

Source:

1. invescopowershares.com: valuation data of QQQ data as of 6/30/08, nasdaq.com and finance.yahoo.com: performance as of 6/30/08

2. russell.com; valuation data as of 6/30/08

3. sp-indexdata.com and Bloomberg; valuation data of SPYand RZV as of 7/3/08

4. Indices built by Aegis Financial Corp to stimulate passive, equal-weighted investment in small cap value securities; rebalanced quarterly

5. Aegis Financial Corp. data as of 6/30/08

Investment Commentary

As we entered the second quarter, the intense selling pressure experienced in the run-up to the Bear Stearns failure was easing following Federal Reserve intervention and the buyout of Bear Stearns by JP Morgan. However, by the end of the quarter, banking concerns had again returned to pressure the market. The ongoing need for banks to de-lever their balance sheets, combined with eroding consumer credit quality, bad construction loans, continued residential real-estate price declines and a weakening commercial real estate environment continued to weigh heavily on the market. After the brutal month of June ended, the average of the financial components in the S&P 500 had declined a further 24.9 percent during the second quarter. As we sit to write this letter, selling pressure in financials continues. Fannie Mae and Freddie Mac appear to be on the verge of insolvency, and a government bailout of these entities is now expected. Additionally, IndyMac Bancorp was recently seized by the Federal regulators in what is apparently the third largest banking failure in the history of the United States. Clearly, the financial system, having gorged itself on levered assets of all kinds in recent years, is showing signs of severe indigestion. Markets are busy trying to decide how messy the aftermath is going to be for the main street economy as credit conditions tighten.

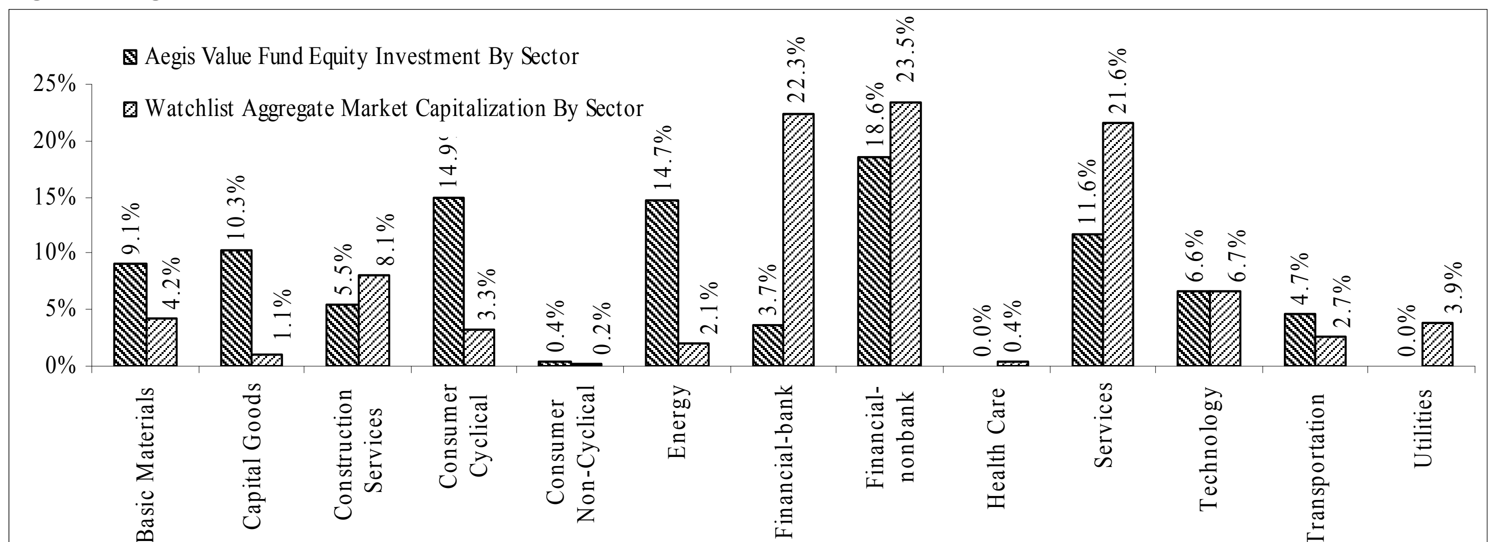
The second quarter was also marked by an escalation in the global prices of food, energy, and other commodities. Prices during the quarter for many commodities rose to multi-decade highs amid the dollar's continued decline. Concern is growing that the Federal Reserve may have to raise rates to combat increasingly entrenched inflation in spite of tenuous economic conditions and a damaged banking system. Clearly inflationary forces are becoming more imbedded. The University of Michigan Inflation Expectations Index is indicating that inflationary expectations have now exceeded 5 percent, a dangerous 25-year high. Escalating food and energy costs, the expenditures for which account for approximately 20 percent of median family income, are pressuring consumer discretionary spending. Recently, the University of Michigan reported that its Consumer Sentiment Index dropped to a 25-year low. The Conference Board's Personal Income Expectations Index is also at the worst point since data tracking began in the late 1970s. As a result of this pressure on the consumer, retail stocks have increasingly fallen out of favor. Additionally, given the rapidly changing consumer appetite toward fuel-efficient automobiles, the domestic auto industry is now engaged in a costly struggle to recast its line-up away from gas-guzzling SUVs and trucks, and towards the fuel efficient automobiles that consumers now desire. Shares in GM plunged during the quarter to a multi-decade low amid a fall off in June motor vehicle sales to 13.6 million units, the slowest pace since August of 1993. Auto company suppliers are also currently facing whiplash as they struggle to retool amid the recessionary slowdown.

Looking Ahead

Given the uncertain economic and political environment, the constant barrage of negative news flow, and the high levels of price volatility in today's market, it can be a challenge to put events into proper historical perspective. Perhaps it is most important to keep in mind that many value stocks have now fallen a long way and at this point already discount significant bad news. With the S&P 500 Index off nearly 25 percent from its peak in early October 2007, the S&P 500's 10-year real return (adjusted for inflation) is now negative. Of the 723 large-cap U.S. stocks that JP Morgan found to have traded for at least 35 years, half are trading lower today than 10 years ago, and one-quarter are trading lower than 20 years ago. Deep value small-caps have fared particularly poorly in the recent turmoil, dramatically underperforming the S&P 500 over the last year. According to research by Nomura which was recently published Barron's, the cheapest and lowest-momentum stocks, similar to our Fund's investment universe, have underperformed more expensive, high-momentum stocks by the widest margin ever recorded. In previous years of significant underperformance, Nomura found these periods were invariably followed by periods of strong outperformance as the cheapest, low-momentum stocks rebounded. We believe this pattern is likely to recur. The approximately $3.5 trillion of investor assets sitting in money market funds on the sidelines awaiting stability to reinvest is a significant potential catalyst.

While it is difficult to tell with any certainty how long it will be before a rebound, historic data can provide some context with respect to the length of market declines. A recent analysis by Bespoke Investment Group of 11 post-1940 bear markets with declines of at least 20

Figure 1: Aegis Value Fund and Watchlist Sector Breakdown (as of June 30, 2008)



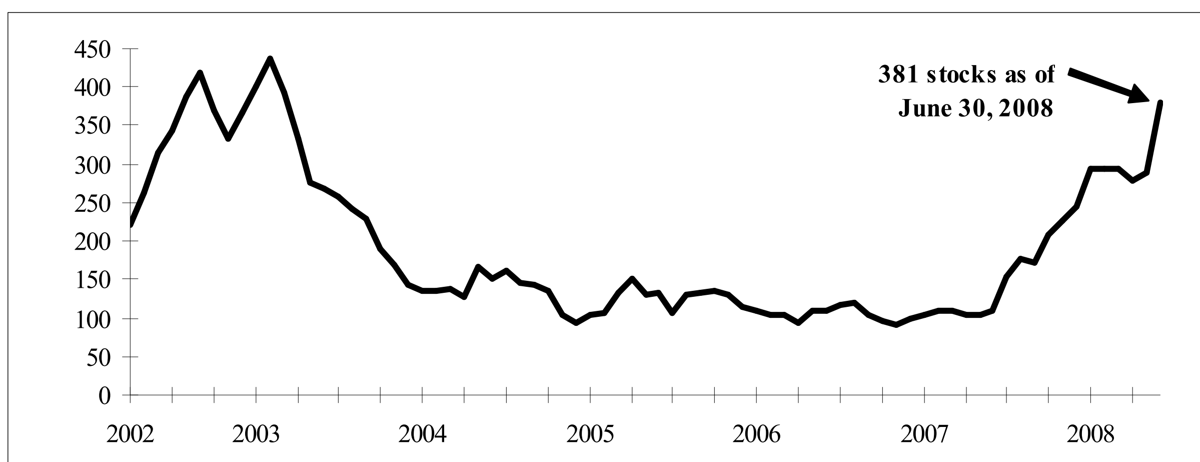
Source: Aegis Financial Corp. and Stock Investor Pro. Watchlist is comprised of all companies with market capitalization greater than $70 million and under $5 billion trading at less than tangible book value.

percent showed the average bear market lasted 386 days and dropped an average of 30.4 percent. The worst decline was in the 1973-1974 period when the market experienced a 48.2 percent decline. The longest post-1940 bear market began in November 1980 and lasted 452 days. This analysis would indicate that if this history is any precedent, we are more likely to be in the later innings of a decline.

Throughout this downturn, we continue to focus on evaluating and selecting our investments, stock-by-stock, positioning the portfolio for better returns when the market recovers while always keeping a prudent eye on risk management. Looking at the portfolio as a whole, as can be seen in Figure 1, the Fund continues to underweight the highly levered financial sector, while overweighing energy stocks. This footing was helpful in achieving reasonable gains in the second quarter, as financials gave way while energy stocks generated steady returns.

Recently, there has been increased anxiety by energy investors that oil prices may be in an overvalued, speculation driven bubble. While we hold doubts that this view is accurate, we do believe that oil prices may soften. Investors should understand that the Fund seeks out special situations within the energy investment universe, and our holdings of energy stocks can be rewarding for us even in a world of lower energy prices. For example, one of our largest energy holdings is Callon Petroleum*, a deep-water exploration and production company which, at a price of $25 per share, trades at a large discount to our estimate of its net asset value. The market appears to be ignoring Callon's Entrada deepwater development project, which is likely to grow production very significantly next year as it comes on-stream. If oil remains at $140+, the net asset value should be greater than $60 per share, a 150 percent premium to current prices. For Callon to be worth its current price, oil must fall to approximately $75.

Figure 2: Number of Stocks Selling Below Tangible Book Value (Market Capitalization Greater Than $70 Million)



Source: Stock Investor Pro.

We believe that value investing in U.S. stocks has bright days ahead. The extraordinary negativity that is now so pervasive is serving to reduce significantly demand for stocks. Currently, the trend is focused on risk reduction, with many market participants now liquidating their equity investments and moving their capital into t-bills, which unfortunately are yielding rates that fail to keep up with inflation. These liquidations are currently providing long-term bargains for disciplined investors. As Figure 2 shows, the number of stocks on our watchlist has now risen to a nearly 5-year high. We are currently hard at work sorting through many potential investments to dig out the gems in order to keep the portfolio optimized and achieve our goal for strong returns. Employees at Aegis Financial and our families remain deeply invested in the Fund, holding over $10 million of Fund shares. We personally believe the current market is giving us a great buying opportunity, and we have continued to purchase shares in the Fund over the last several months.

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 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 Value Fund

** As of June 30, 2008, Callon Petroleum represents 6.1% of total assets of the Aegis Value Fund.*

The Aegis Value Fund is offered by prospectus only. Before investing in this Fund, investors should carefully consider all risks of investing in: stocks in general, "deep value" stocks, stocks of smaller companies, and stocks of foreign companies. 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, where an online prospectus is available.

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