Advisor's Report
August 31, 2007

The Aegis Value Fund seeks to achieve long-term, above market returns while minimizing risk of capital loss. Our strategy is to invest in a well-researched portfolio of small-cap equities trading at a fraction of intrinsic worth. We believe the equity markets are often inefficient, and we employ a contrarian, company-focused approach, selecting each stock individually on its own merit. We purchase shares in companies when we judge share prices to be fundamentally undervalued, focusing on stocks trading at low price-to-book or price-to-cash flow ratios. Low multiple stocks are a segment of the market where academic research shows historical returns have significantly outpaced the overall market. We often invest in companies when they are misunderstood, out of favor, or neglected. We hold investments until market prices reach our estimate of intrinsic value.

Advisor's Report

October 18, 2007

To the shareholders of the Aegis Value Fund:

We are pleased to present the Aegis Value Fund Advisor's Report for the fiscal year ending August 31, 2007.

For the 12-month period ending August 31, 2007, the Aegis Value Fund posted a gain of 13.6 percent versus a gain of 6.6 percent for our primary small-cap benchmark, the Russell 2000 Value Index.* The Russell 2000 Index of small-cap stocks gained 11.4 percent, while the S&P 500 Index of large stocks rose 15.1 percent in the period.

Since inception of the Aegis Value Fund on May 15, 1998, more than 9 years ago, performance has been strong relative to the benchmark indices. The Fund has posted a cumulative gain of 236.8 percent through September 30, 2007, compared to a cumulative gain of 139.2 percent in our primary small-cap benchmark, the Russell 2000 Value Index. During this period, the Russell 2000 Index of small-cap stocks posted a cumulative gain of 91.8 percent, and the S&P 500 Index of large-cap stocks posted a cumulative gain of 59.8 percent. As can be seen in **Table 1**, the Aegis Value Fund has generated an annualized return of 13.8 percent from inception through September 30, compared with 9.8 percent for the Russell 2000 Value Index. The Russell 2000 Index and the S&P 500 Index have generated annualized returns of 7.2 percent and 5.1 percent over the period respectively. The Fund's returns listed in Table 1 reflect the dampening effect of average daily cash balances of 47.2 percent, 29.3 percent, 54.2 percent, 39.4 percent, and 22.2 percent in years 2002 through 2006, respectively.

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* *Aegis Value Fund's one-year, three-year, five-year and since inception (5/15/1998) average annual returns for the period ending September 30, 2007 are 11.69%, 9.12%, 14.59%, and 13.81% respectively. Returns include reinvestment of dividends and capital gains. Russell 2000 Value total returns for the same periods are 6.09%, 12.51%, 18.70%, and 9.74% respectively. Current performance may be lower or higher than the performance data quoted. For current month performance information and/or to obtain a copy of the prospectus, please call our shareholder services representatives at 1-800-528-3780. This report does not constitute an offer or solicitation of any transaction in any securities. The Aegis Value Fund is offered by prospectus only. The investor should consider the investment objectives, risks, and charges and expenses of the Fund carefully before investing. The prospectus contains this and other information about the Fund and should be read carefully before investing. Past performance does not guarantee future results. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.*

Table 1: Historical Total Return*

Year	Aegis Value Fund Total Return	Russell 2000 Value Index Total Return	Russell 2000 Index Total Return	S&P 500 Total Return
1999	9.6%	(1.5%)	21.3%	21.0%
2000	14.7%	22.8%	(3.0%)	(9.1%)
2001	42.7%	14.0%	2.5%	(11.9%)
2002	1.3%	(11.4%)	(20.5%)	(22.1%)
2003	35.7%	46.0%	47.3%	28.7%
2004	13.5%	22.3%	18.3%	10.9%
2005	3.9%	4.7%	4.6%	4.9%
2006	17.8%	23.5%	18.4%	15.8%
2007, through 9/30/07	(0.7%)	(2.7%)	3.2%	9.1%
Annualized, Inception through 9/30/07	**13.8%**	**9.8%**	**7.2%**	**5.1%**

Sources: Aegis Financial Corporation, Standard & Poor's Index Services, and Russell Investment Group

* *Please refer to the performance disclosure on Page 1.*

Portfolio Gainers and Losers

This past fiscal year, like the years before, we have had some investments that worked out nicely and others that negatively impacted performance. To give our investors a better sense of the winners and losers within our portfolio, we have provided **Tables 2 & 3**, which show investments held by the Fund that contributed a gain or loss, over the course of the fiscal year, in excess of one percent of the Fund's net assets. The Fund's average daily net assets over the period was $400.6 million, so the tables show any investments that contributed in excess of $4.0 million in gains or losses over the period.

Table 2 – Significant Contributors to Net Gains in Fiscal Year

Investment	Ticker	Realized Gain Incl. Dividends*	Unrealized Gain*	Total Gain
CF Industries Holdings, Inc.	CF	$21.7M	—	$21.7M
Alliance One International Inc.	AOI	$18.3M	—	$18.3M
Air France – Shares + Warrants	AKH	$ 5.2M	$4.3M	$ 9.5M
Tecumseh Products	TECUA/TECUB	—	$6.0M	$ 6.0M
American Pacific Corp.	APFC	—	$5.8M	$ 5.8M
Steel Technologies Inc.	STTX	$ 5.7M	—	$ 5.7M
Exide Technologies	XIDE	$ 2.8M	$1.6M	$ 4.4M
Reliant Energy Inc.	RRI	$ 4.3M	—	$ 4.3M

Table 3 – Significant Detractors from Net Gains in Fiscal Year

Investment	Ticker	Realized Loss Incl. Dividends*	Unrealized Loss*	Total Loss
Pope & Talbot Inc.	POP	($4.6M)	($0.2M)	($4.8M)
Audiovox Corporation	VOXX	—	($4.4M)	($4.7M)
Allied Defense Group	ADG	—	($4.3M)	($4.3M)
Sea Containers Ltd.	SCRA	($4.0M)	—	($4.0M)

Source: Aegis Financial Corporation

* *Realized and unrealized gains/losses in Tables 2 and 3 are calculated employing the period start price as basis for the period gains/losses*

As can be seen in **Table 2**, the Fund's fiscal 2007 performance benefited significantly from investments in CF Industries, a nitrogen fertilizer manufacturer, and Alliance One International, a global tobacco leaf processor. Together, these two positions were responsible for nearly $40 million of the Fund's fiscal 2007 gains. Both positions were fully sold by the end of August. Other highlights included a nice gain on the buy out of Steel Technologies, and a realized gain on our long-standing investment in Reliant Energy, which we sold as valuations increased.

Of course, not all investments worked out so well during the year. **Table 3** points out the most significant detractors from performance for the fiscal year. A decline in shares of Pope & Talbot, a paper pulp and lumber company with operations primarily in Canada, was the most significant detractor from Fund performance. We had purchased an equity stake in this leveraged company primarily in the second half of 2005 and the first half of 2006, generally at discounts to book value. At the time, pulp pricing was showing signs of strengthening. Additionally, the company's lumber sales had been subject to counterveiling duty tariffs imposed by the United States. While we correctly concluded that these tariffs were likely to end and be substantially refunded back to the producers (which reduced debt), we failed to foresee the degree of softening in the U.S. lumber markets or the degree of strengthening of the Canadian dollar. Additionally, increasing wood-chip input costs acted to pressure margins with a magnitude that more than offset the price gains seen in pulp and the benefit of tariff removal. The company has been in violation of banking covenants and is now pressured to sell its assets to avoid a bankruptcy restructuring. In light of deteriorating fundamentals, we have exited this position.

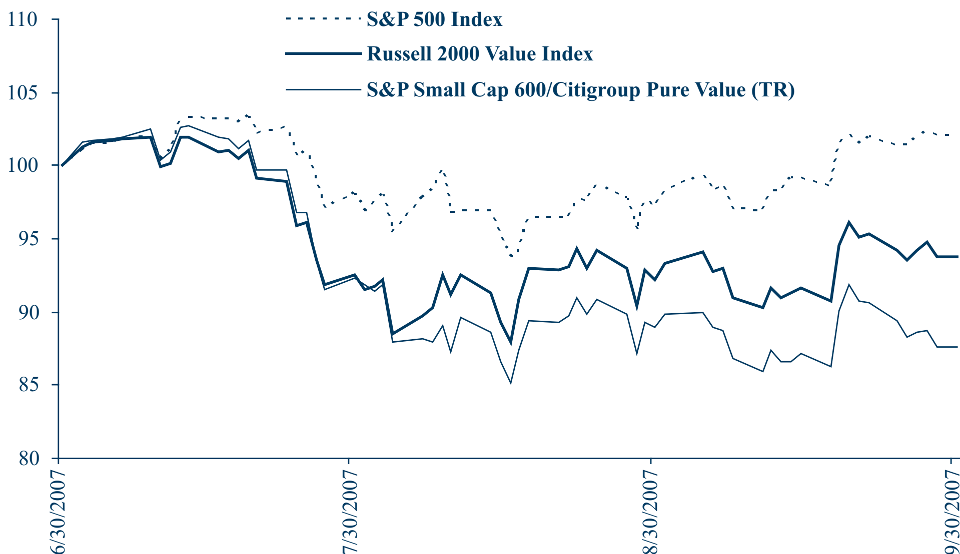
While no one can predict the future, we believe that unrealized losses in Allied Defense and Audiovox are likely to prove temporary. News from these companies is positive. Allied Defense has won additional armament contracts and has sold off a non-core business realizing healthy proceeds, which has dramatically improved liquidity and management focus at the company. Audiovox has traded down to a significant book-value discount—a level not too far above the per-share net cash on the balance sheet. Each company is applying corporate cash to improve its capital

structure, buying in discounted financial claims on the businesses. Allied Defense is negotiating the repurchase of convertible debt while Audiovox has announced a share repurchase.

View From The Trenches – The 3rd Calendar Quarter

While our Fund turned in a respectable performance during its fiscal year, our investment results were trending much higher for the year prior to July, when bids for small-cap value stocks dried up and quotations rapidly deteriorated.

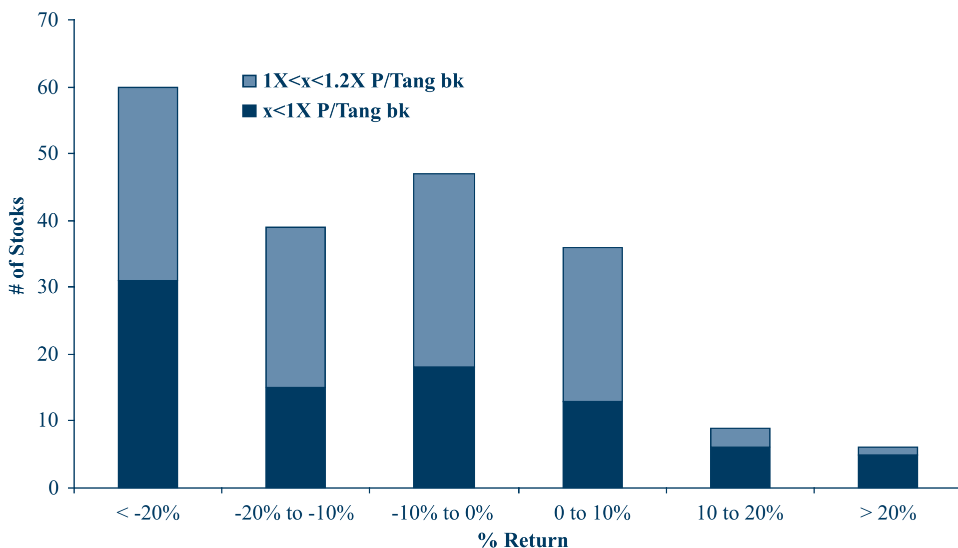
Figure 1: Russell 2000 Value Index, S&P 500 Index and S&P Small Cap 600/ Citigroup Pure Value Third Quarter 2007 Total Return



Sources: Aegis Financial Corporation, Standard & Poor's Index Services, and Russell Investment Group

As can be seen in **Figure 1**, third calendar quarter market losses were not evenly distributed and impacted small-cap value stocks disproportionately. In fact, after dropping slightly in July, the S&P 500 went on to report a remarkable 1.6 percent gain for the quarter. Growth stocks did particularly well. The Russell 2000 Value Index, which tracks stocks that Russell considers small-cap value, dropped by 6.3 percent. The S&P Small Cap 600/Citigroup Pure Value Index, created by Standard & Poors to more accurately track the small-cap, deep-value universe, dropped by 12.8 percent.

Figure 2: Dispersion of Returns for Low Price-to-Tangible Book Stocks For The Third Quarter 2007



Sources: Aegis Financial Corporation and Stock Investor Pro Stock Screener

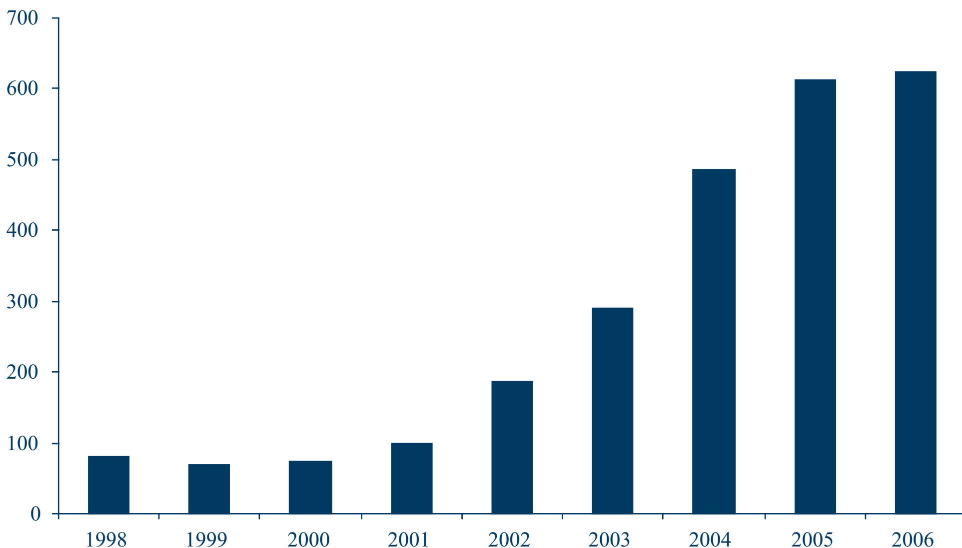
The low price-to-book segment, from which our Fund primarily selects stocks, performed even worse. Our compilation of all domestic stocks above $70 million market cap and under 1.2 times tangible book-value experienced an average third quarter price decline of 14.0 percent with stocks under 1.0 times tangible book-value experiencing a massive 16.3 percent average decline. The dispersion in performance of the Aegis watchlist universe is shown graphically in **Figure 2**. Overall, the Aegis Value Fund performed better than this deep-value universe, but still dropped 12.0 percent for the quarter, a disappointing performance costing us the gains we had built-up since January.

The third quarter of 2007 was clearly an unusual and volatile time in the small-cap, deep-value segment of the equity markets. While a full picture of the events that occurred over this summer is still developing, from what we have been able to ascertain, we believe that while big-caps plodded along relatively undisturbed, deep-value small-caps were significantly impacted by the struggle of hedge funds and other financial institutions to raise liquidity and reduce leverage in order to deal with margin calls on mortgage securities and other financial instruments.

Investors may recall the first sign of major trouble arrived in June, when banks that had lent money to two highly leveraged Bear Stearns hedge-funds investing in highly-rated tranches of sub-prime backed collateralized mortgage obligations (CMOs) started to call in their loans. The turmoil forced Bear Stearns to step in as a lender of

last resort to prevent a fire-sale of these mortgage-backed bonds to meet margin calls. We understand that investors in both these funds experienced almost total losses. This news was rapidly followed by news from several other funds around the world experiencing significant losses on similar securities.

Figure 3: Subprime & Second-Lien ABS Issuance Volume ($bn)



Sources: Bear Stearns, Thomson Financial, and Deutsche Bank

While the Fund has no direct and little, if any, overall exposure to sub-prime CMOs, troubles within these markets for these securities were at the epicenter of the liquidity-crunch that has been impacting the markets. Over the last few years, issuance of sub-prime CMOs had exploded, as can be seen in **Figure 3**, with more than $600 billion of these securities issued in each of 2005 and 2006. However, there were several inherent problems with the CMO market:

First, the originating financial institutions were no longer retaining significant exposure to credit risk from the mortgage originations they were underwriting, and as a result, credit analysis suffered.

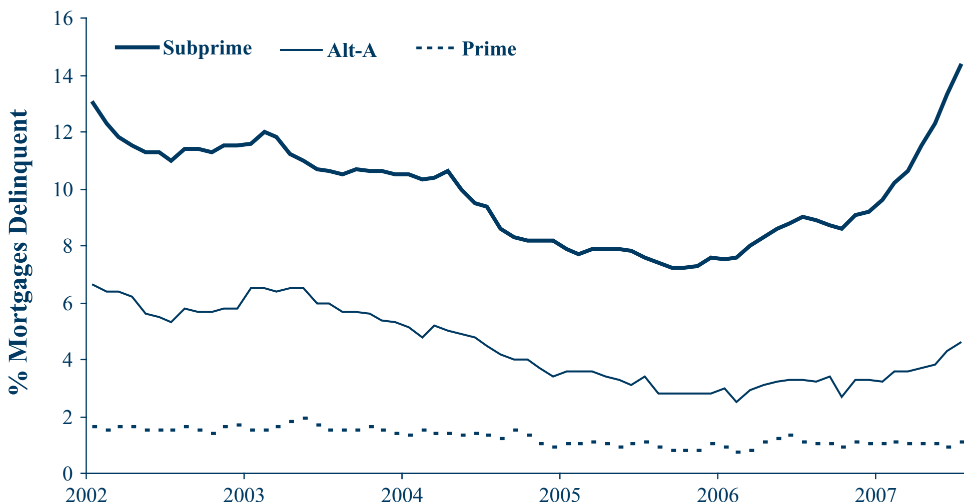
Second, the ratings agencies competed with one another to rate these highly lucrative structured securities, and were generally paid by the investment banks that created the CMOs. The higher the rating of the senior tranches, the lower the yield investors in the higher rated tranches would accept, and the better the spread income to the investment bank from any retained junior tranche. These securities, called residuals, typically absorb first losses from the underlying mortgage pool and provide credit enhancement to the senior tranches. The bottom line was that the ratings agencies had significant incentive to generously rate the senior tranche securities in order to continue to receive

new business. It was common to see senior tranches of subprime mortgage pools with some subordination remarkably rated triple-A. As a result of the highly rated senior tranches, the investment banks and other holders of the residual tranches pocketed tremendous spread income on their holdings. The system seemed to be working, as long as house price appreciation continued at a strong pace.

Finally, theses CMOs were generally private placement securities, and as such, had a limited secondary market. With sparse secondary market pricing available, CMOs were often carried at ''fair-value'', or marked to a mathematical pricing model by financial institutions holding them.

Figure 4: Delinquency Rates

Based on non-payment for more than 60 days past due date



Source: Fitch Ratings

When housing appreciation ground to a halt, and many adjustable-rate mortgages began to reset, the lack of satisfactory lending standards became evident in the increased mortgage delinquency rates among sub-prime borrowers, as can be seen in **Figure 4**. Suddenly this summer, the higher-rated senior tranches of these CMOs began to come under a much greater degree of market suspicion. It became clear that many CMOs, despite being highly rated, were likely to experience significant credit losses over the next few years. Downgrades of many of these securities began to occur.

When banks became increasingly nervous about the extent to which they had extended loans to other financial institutions against CMO collateral, they pulled their loans as they did with Bear Stearns, thus setting off a race by leveraged hedge funds and other financial institutions to liquidate this collateral into the secondary market at heavy discounts to model-based pricing. As secondary market pricing showed significant

losses, additional financial institutions were forced to mark down the carrying value of their mortgage securities to market value, rather than price to model, causing booked losses to mount.

The fallout from the subprime implosion began to impact the greater mortgage market. Without confidence in the accuracy of the ratings, mortgage-backed securities without the implicit government guarantee of Fannie Mae or Ginnie Mae began to drop in value. The high degree of complexity of these collateralized asset products, with their thousands of underlying loans and their various degrees of subordination, made credit analysis very difficult, and rapid evaluation nearly impossible. As the credit crunch spread out to a wider variety of securities, additional margin calls on leveraged hedge funds, leveraged mortgage real-estate investment trusts, and other financial institutions ensued, driving collateral values down further, and leading to significant losses on the sale of securities of all kinds. Even mortgages that were not suffering any significant credit deterioration were marked-down, forcing even those leveraged institutions investing only in higher-quality assets like the Thornburg Mortgage REIT to sell-off good credit mortgage collateral at a loss.

Financial institutions and multi-strategy hedge funds responded to these margin calls on their structured credit portfolios much as they did in the wake of the Long Term Capital Management crisis in 1998: they rapidly sold stock and bond positions to raise liquidity and avoid a fire-sale of less liquid structured finance positions. The sell-off was necessary, as many of the big banks were reluctant to step in and extend additional capital, regardless of the fundamentals. These banks were scrambling for liquidity as they were reportedly facing approximately $300 billion in leveraged buy-out funding commitments, which were now underwater given increased credit spreads demanded by the now fearful credit markets.

While we can't be sure exactly what occurred at this point, we believe that pressured selling of non-mortgage securities was the trigger event impacting another highly-leveraged sector of the market known as quantitative investing. Many of these "quant" funds take leveraged positions driven by quantitative algorithms, which are often based on a stock's investment fundamentals. While a quant fund's underlying algorithms are usually a closely held secret, a major class of algorithms employed by many of these funds involves a philosophy of buying low price-to-book and price-to-cash flow stocks with good fundamentals while simultaneously selling short high price-to-book and price-to-cash flow stocks with bad fundamentals. In so doing, these funds play for convergence to the mean, while attempting to shield clients from overall market risk.

While no one can be sure of the size of this opaque investment arena, the quant funds, by some accounts, held more than $250 billion in assets before leverage. Because the markets had been unusually calm over the last several years, many quant funds were employing significant leverage to enhance returns. The leverage was 6-to-1 in the case

of one of Goldman Sachs' hedge funds. By some estimates, the amount of assets invested in quant strategies, given the leverage, could be as high as $1 trillion.

The strategy of our Fund is similar to that of some quant funds in that we also try invest in companies that trade at very low multiples with good fundamentals. However, unlike these quant funds our Fund does not short stocks. Additionally, while many quant funds employed significant leverage to magnify returns, our Fund held significant cash, given the strong competition we have seen for value stocks in recent years.

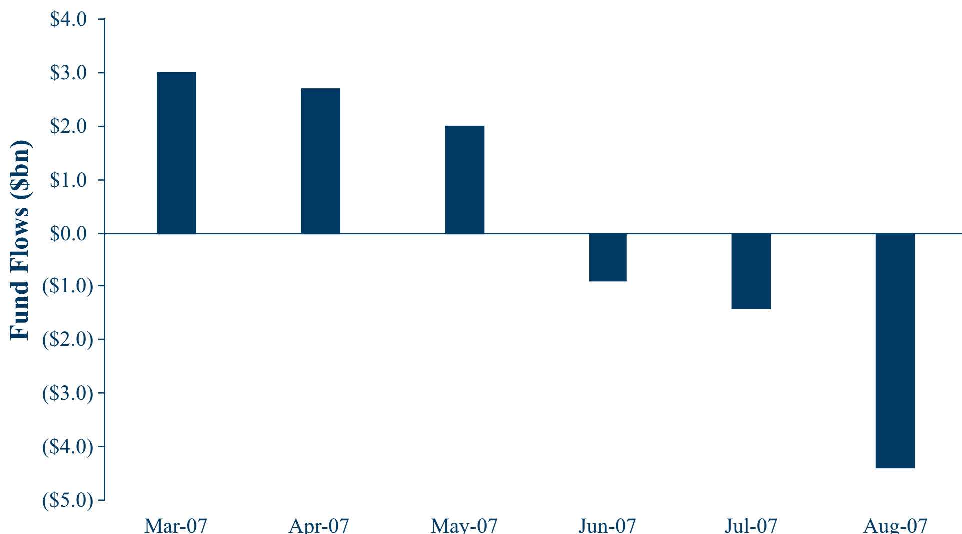
Many of these highly-leveraged quant funds became severely stressed during the market turmoil in August, as mortgage induced selling spilled over into the equity markets. Suddenly, it seemed that a stock's investment fundamentals were frequently being ignored by the market. What was driving securities pricing was who was under margin or redemption pressure and what equities they were being forced to sell. Many of these funds, realizing that markets were not behaving properly in a fundamental sense, took immediate efforts to reduce leverage as they found themselves improperly positioned for the turmoil. Goldman Sachs' unprecedented move to inject $2 billion of its own money into its GEO Fund was an effort to reduce leverage following a precipitous drop in August of more than 20 percent in GEO's equity. Clifford Asness, a well-known quantitative investor and manager of quantitative funds at AQR, also believed the market turmoil was driven by quant-oriented forced selling. In a white paper in September, Asness (who had a front-seat view of the quant turmoil) wrote of "at least one large participant [that] was forced to rapidly unwind its book—it had offered a form of 'portfolio insurance' to a large investor that required the manager to return capital as large losses were incurred."

We believe that the reduction of leverage by quant funds and possibly redemptions from quant funds had the consequence of precipitating the performance differential between deep value stocks and the broader market as illustrated in Figure 1. The unwinding often necessitated the selling of stocks with good fundamental values and the repurchase of stocks with bad fundamentals that had been shorted earlier, which caused further divergence. According to Asness, "The snowball really got rolling downhill the first couple of days of the week of August 6th… chaos reined for the next few days as 'weak hands' exited the strategy. Even many veterans had to trim back, making the 8th and 9th particularly unpleasant experiences." From **Figure 1**, it is clear that the deep-value stocks represented by the S&P Small Cap 600/Citigroup Pure Value Index diverged significantly from the Russell 2000 Value Index after many weeks of tight correlation during this part of August, strong evidence that quant selling was the culprit for these declines.

August's turmoil significantly impacted the performance of many quant funds. August reportedly left Goldman's GEO Fund down 23 percent year-to-date and its Global

Alpha fund down 30 percent year-to-date. Both Asness' AQR and Black Mesa, another well regarded quant fund, had well reported difficulties in August. These funds were not alone.

Figure 5: Net Flows – Value Funds



Source: Lipper

Investor redemptions have recently added to the turbulence in the value investing arena. According to research by BarclayHedge and TrimTabs, investors in funds of hedge funds may have redeemed as much as $55 billion in July, equivalent to almost 5 percent of their assets. Furthermore, as can be seen in **Figure 5**, positive fund flows into value-oriented mutual funds have recently reversed. Especially amongst small-caps, these outflows often require redemption-driven selling which can exacerbate declines. Capital has recently been flowing to large-cap growth-oriented funds and international funds, as investors, chasing recent strong performance in these sectors, seek to allocate more capital towards securities exposed to the international economy. Many growth-oriented funds now sport strong 5-year records, as their disappointing years of 2000-2002 have fallen off the performance radar, leading momentum-chasing investors to take a fresh view of this market sector.

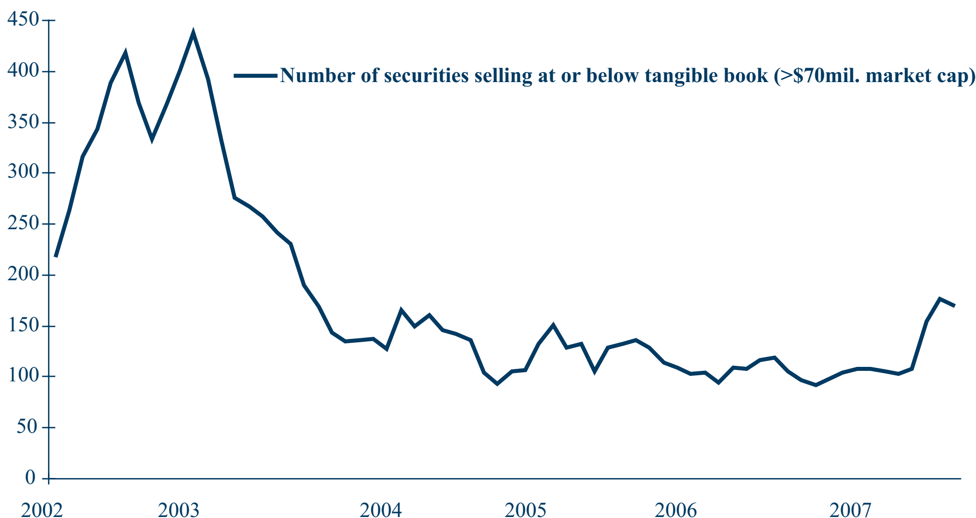
With the MSCI Emerging Markets Index up approximately 40 percent year-to-date in dollar terms, problems of corruption and lack of uniformly applied rule-of-law prevalent in many of these emerging economies have been all but erased from investor's memories. Now, conventional wisdom holds that emerging markets represent a clear safe-haven from domestic economic woes and dollar troubles. Excited about recent share performance, investors have raced nearly $29 billion into emerging markets this year, with an incredible 82 percent of that figure having been pushed-in

within the last 7 weeks, according to EPFR Global, which tracks investment flows. As a result, emerging market valuations are rapidly expanding while valuations domestically drop. We don't believe recent purchases in the emerging markets will prove prudent in the long-run. We prefer to buy securities in the developed world with cheaper valuations.

While it is never easy to go through a period of market turbulence, especially when it impacts our investment universe so intensely, we do take some degree of comfort in our conviction that the phenomenon we are witnessing is a liquidity-driven, quotation-based phenomenon primarily driven by margin calls and investor liquidations, and not deterioration in portfolio holding fundamentals. News from companies in which we have invested has generally been in line with our investment expectations.

The quant deleveraging phenomenon and the rotation by performance chasing investors out of value stocks presents a unique opportunity for long-term deep-value investors, as valuations in the sector have become quite reasonable. As can be seen in **Figure 6**, the number of stocks on our low price-to-book watchlist has jumped by nearly 70 percent after remaining generally stagnant for several years. Additionally, average valuation levels within the watchlist have also dropped, significantly in some cases, leading to materially improved risk/reward metrics. As a result, we have made additional investments in equities recently, and have become nearly fully invested. Cash levels in the fund are now at approximately 10 percent, a multi-year low.

Figure 6: Number of Securities Selling at or Below Tangible Book Value (Greater than $70 Million Market Cap)



Sources: Aegis Financial Corporation and Stock Investor Pro Stock Screener

At the current time, the Fund is also highly concentrated among the stocks we believe are the most promising. As a result of the reduction in cash and our concentrated portfolio, we believe the Fund's day-to-day performance is likely to be somewhat more volatile when compared to its cash-dampened historical performance. While the higher level of volatility can be somewhat disconcerting, in our analysis, a great majority of Fund holdings are significantly undervalued at the present time. While no one can predict with certainty when the recent volatility and turmoil will end, we believe we are well positioned for gains when the portfolio liquidations cease and the market returns to more normal conditions. Consequently, employees of Aegis Financial and their families have made significant additional purchases of Fund shares over the last several months.

Portfolio Purchases and Sales

During the fiscal year ended August 31, the Fund made $164.5 million of purchases in stocks we believed offered good risk/return characteristics.

The largest investment we made over this period was a $17.85 million investment in Tecumseh Products Company (both non-voting class A and voting class B). This $330 million market-cap company trades at a significant discount to its tangible book value of $710 million. Tecumseh is a global producer of compressor and refrigeration products posting in excess of $1.3 billion of annual sales. The company also has an engine and power-train products business that produces and sells 2 and 4-cycle engines used in lawn-mowers and snow blowers. The company has been slogging through a turnaround in recent years, taking some long overdue measures to improve efficiency and refocus on its core compressor franchise. We bought much of the stock earlier in the year following the bankruptcy of one of the company's two Brazilian subsidiaries, which had caused a cross-default on loans at the parent company and raised the possibility of a bankruptcy. Through research, we determined that a bankruptcy was unlikely, and in the unlikely event one should occur, the inherent value of the company's assets would ensure that shareholders were still likely to be well protected. Recently, much of the non-core FASCO business was sold, repaying a significant portion of the debt, and alleviating the company's liquidity issues. The company plans to raise additional cash by selling off other non-core assets and closing an over-funded pension plan. While the company's compressor manufacturing facilities in Brazil and India continue to be negatively impacted by the strengthening of these countries' currencies against the dollar, we believe the company is finally on the path to recovery. As you have seen from **Table 2**, the Fund benefited from $6 million of unrealized gains on this investment in Fiscal 2007.

Also of note, we recently have made limited contrarian investments in several homebuilding companies, notably Meritage, M/I Homes, and Beazer Homes. While in the past we held off purchasing these companies, fearing that exposure to land write-downs was not adequately discounted in share prices, the third quarter credit crisis dramatically impacted overall investment valuations for homebuilders. The

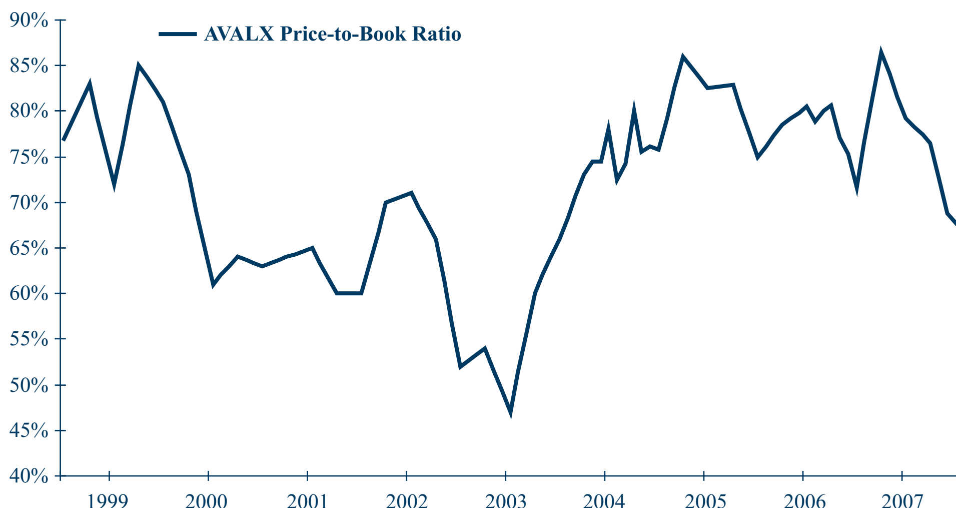
sentiment has now become so negative and prices have dropped to such a large discount to book that we believe several stocks in the sector now merit limited investment.

Please note, we do not anticipate these companies are likely to emerge from difficult conditions in the near term, given rising national housing delinquencies, falling home prices and $500 billion of additional sub-prime mortgage adjustable interest rate resets scheduled over the next 18 months. We do believe most homebuilders will take significant future write-downs. However, valuations of well-financed homebuilders now discount significant economic turmoil and the chances are good that many stocks in the sector are near a bottom.

One favorable aspect of the current situation is that long-term interest rates, the decline of which is most directly responsible for the worldwide increase in housing prices, remain low. In addition, American demographics favorably support demand for new housing units. Normalized demand for new housing units in the United States, driven by new household formation, has been estimated by analysts at 1.9 million homes per year. Given that cumulative overbuilding between 2002 and 2006 has been estimated at 0.7 million units, it can be argued that about a half-year supply of new homes must be worked through before new home construction resumes a normal pace.

In our efforts to minimize portfolio risk, we have sold off several holdings after prices ascended to levels inconsistent with good value. We sold $45.5 million of Alliance One International, realizing gains of $7.5 million. We sold $36.7 million of CF Industries, booking gains of $22.0 million. Our stakes in Royal Group Technologies and Steel Technologies were both bought-out during the year, resulting in proceeds of $14.3 million and $14.1 million respectively. We booked a gain of $3.9 million in Royal Group Technologies, and a gain of $5.7 million in Steel Technologies. Our total realized gains net of realized losses was $25.6 million on sales of $218 million.

Figure 7: Historical Price-to-Book Value – Aegis Value Fund



Source: Aegis Financial Corporation

Portfolio Valuation

While it is virtually impossible for long-term investors to eliminate the risk of temporary stock price declines due to forced selling by market participants, we continue to believe that the risk of permanent capital loss is strongly mitigated by concentrating our Fund holdings on companies with fundamental valuations among the lowest available in the market. As **Figure 7** demonstrates, the Fund portfolio currently trades at 68 percent of book value as of September 30, 2007. This is the lowest absolute valuation level for the Fund since September 2003, and down significantly from 87 percent of book-value at year-end, as we have sold securities at high valuation levels and reinvested the proceeds in stocks trading at cheaper levels. Overall, the stocks in the Fund trade at levels much lower than the benchmark indices, as key valuation ratios can be compared in **Table 4**.

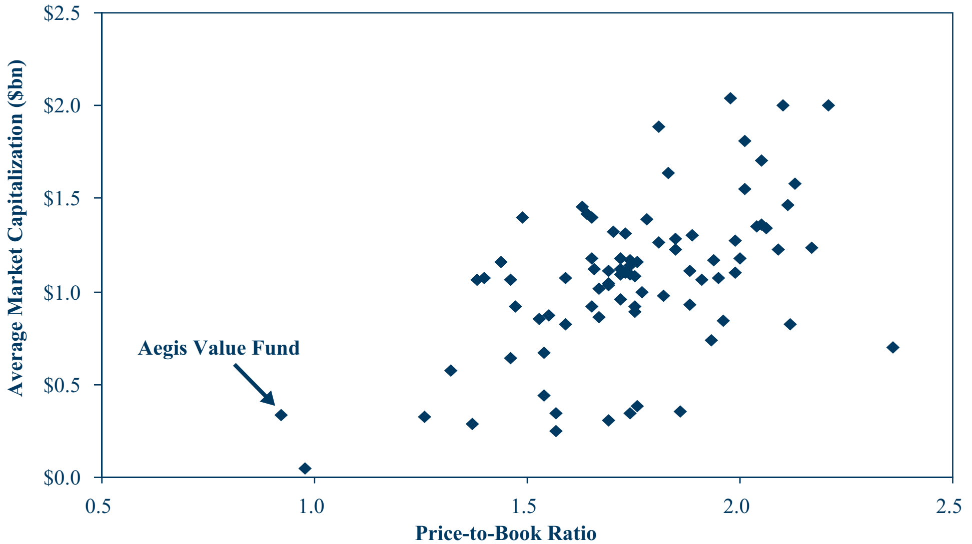
Table 4: Key Valuation Ratios

Benchmark (Data as of 09/30/2007)	Price-to-Book
S&P 500 Index	3.4x
Russell 2000 Index	2.4x
Russell 2000 Value Index	1.7x
Aegis Value Fund	0.7x

Source: Aegis Financial Corporation, Barron's, and Russell Investment Group

Finally, as can be seen in **Figure 8**, based on the latest fund portfolio information available from Morningstar (which tends to update on a several month delay), the Aegis Value Fund trades at the lowest price-to-book value ratio of any fund in the Morningstar small-cap value universe. Clearly, not all small-cap value funds are cut from the same cloth. We believe the Aegis Value Fund remains unique in its approach to investing in truly deep-value companies.

Figure 8: Aegis Trades Among Lowest Price-to-Book Value Funds in Morningstar's Small-Value Universe



Source: Morningstar, Aegis Financial Corporation

In Closing

Please know that we take our fiduciary obligation to you very seriously, and work diligently to preserve and grow our capital. The employees of Aegis Financial and our families collectively own in excess of $10 million in Aegis Value Fund shares, so we are very committed to our approach. We believe that the current investing environment is offering a compelling opportunity to deploy capital, and we appreciate your support.

Of course should you have any basic account questions, our representatives at UMB Investment Services Group are always available at (800) 528-3780. You are also welcome to call us directly at (703) 528-7788 should you have any other questions.

Aegis Financial Corporation

Scott L. Barbee, CFA
Managing Director, Portfolio Manager

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**Notes: Aegis Value Fund's one-year, three-year, five-year, and since inception (5/15/1998) average annual returns for the period ending September 30, 2007 are 11.69%, 9.12%, 14.59%, and 13.81% respectively. Russell 2000 Value Index one-year, three-year, five-year, and since inception (AVALX-5/15/1998) average annual returns for the period ending September 30, 2007 are 6.09%, 12.51%, 18.70%, and 9.74%. All historical performance returns shown in this Advisor's Report for the Aegis Value 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 1.38%.*

This article refers to four stocks held by the Fund. As of August 31, 2007, the percentage of total assets of the Fund these stocks represent respectively is as follows: Tecumseh Products Co. Class A 5.02%, American Pacific Corp. 2.94%, Air France-KLM-ADR 1.14% and Exide Technologies 0.94%.

Investors should consider the Fund's investment objectives, risks, charges, and expenses. The prospectus contains this and other information about the Fund. For a prospectus that includes more complete information, 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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