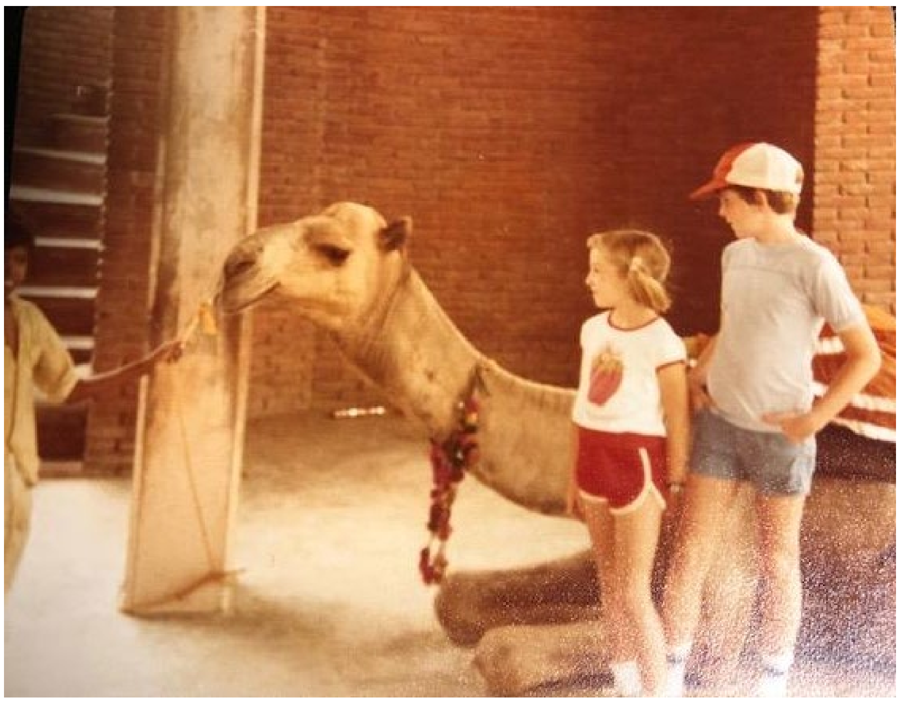
A VIEW FROM THE TRENCHES

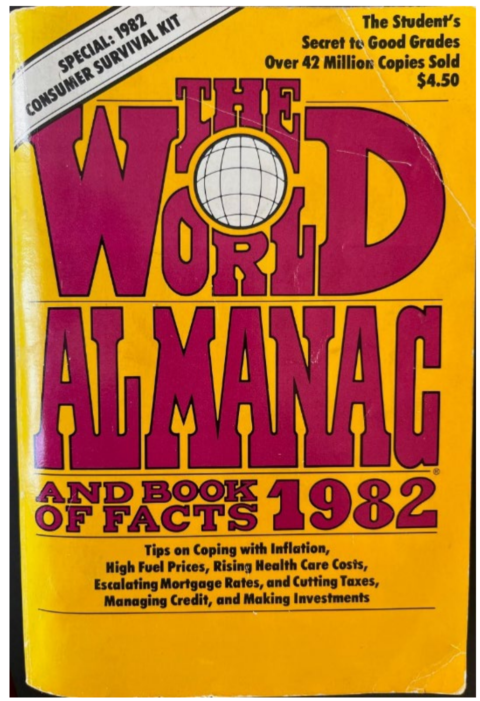
Scott Barbee
Aegis Financial Corporation

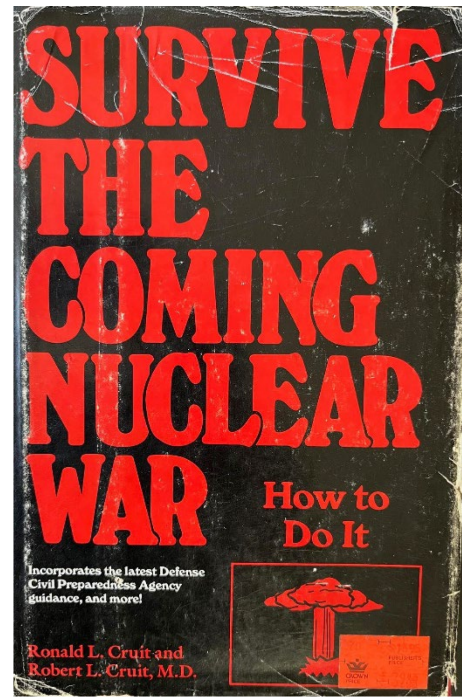
Ben Graham Centre for Value Investing

Scott L. Barbee, CFA
Portfolio Manager

Mr. Barbee is the President and controlling shareholder of Aegis Financial Corporation and has managed mutual funds there since 1998. Prior to Aegis, Mr. Barbee worked as an analyst covering oilfield services at Simmons & Company, and later as a generalist with deep value advisor Donald Smith & Company. Mr. Barbee received his M.B.A. from the Wharton School at the University of Pennsylvania and holds a B.S. degree in Mechanical Engineering and a B.A. degree in Economics from Rice University.







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Introduction To Aegis

Aegis Financial Corporation is a deep-value focused investment firm that strives to deliver long-term capital appreciation by investing in a concentrated, well-researched portfolio of out-of-favor, small-cap stocks trading at a significant discount to intrinsic value.

40-Act Mutual Fund
Assets: $325 million
Inception: May 1998

Separate Accounts
Assets: $29 million

Experience, Independence and Discipline

- Since its founding in 1998, the Aegis Financial has adhered to a small-cap, deep-value philosophy, focusing on securities trading in the lowest quintile of the stock market, based on price-to-book value.
- Portfolio Manager Scott Barbee has built a continuous 27-year track record of small-cap value investing, successfully navigating through a meaningful variety of market conditions.
- Aegis Financial Corporation is internally owned and prioritizes investment outperformance over simply growing assets under management.
- The investment team is strongly committed to the strategy, with over $50 million co-invested in the strategy through its mutual fund.

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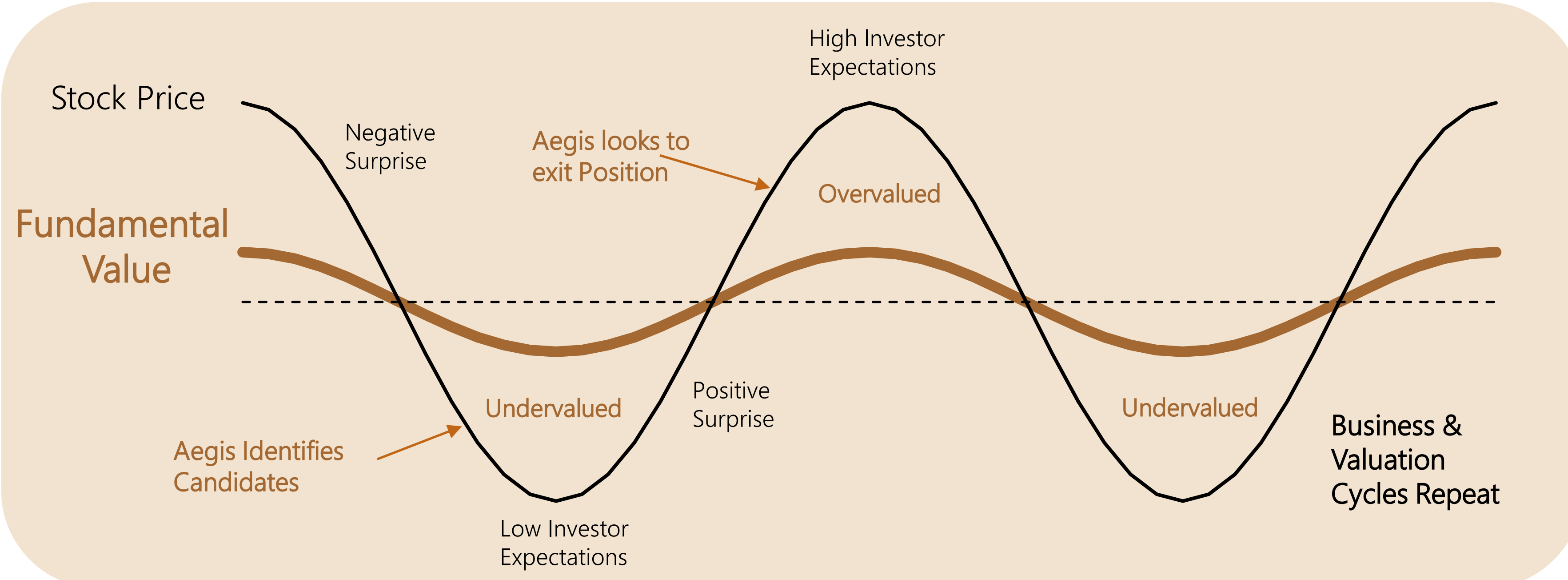
Aegis Investment Philosophy – Taking Advantage of Volatility & Mean Reversion

Stock Prices Typically Overreact to Changes In Fundamentals



- Equity markets are inherently emotional and can overreact to events. Recency bias can create dislocation opportunities for contrarian, long-term investors to exploit.

- Dislocations are often ***magnified in small-cap stocks***
  - lack of analyst attention
  - less transparency
  - lower liquidity

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Aegis Investment Philosophy – Taking Advantage of Volatility & Mean Reversion

Aegis believes excess returns can be generated with small-cap stocks by:

- Purchasing a *well-researched* portfolio of *fundamentally-sound* companies during periods of stress or neglect,
  - Liquidity often low
  - Sentiment is poor
- Holding these investments while fundamental conditions normalize
  - Patiently waiting out short-term price volatility
  - 3-4 year typical holding period
- Selling after fundamental trends recover
  - Business improvements become apparent to other investors
  - Liquidity and investor sentiment improve

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Aegis Competitive Advantage – Our Sources of "Alpha"

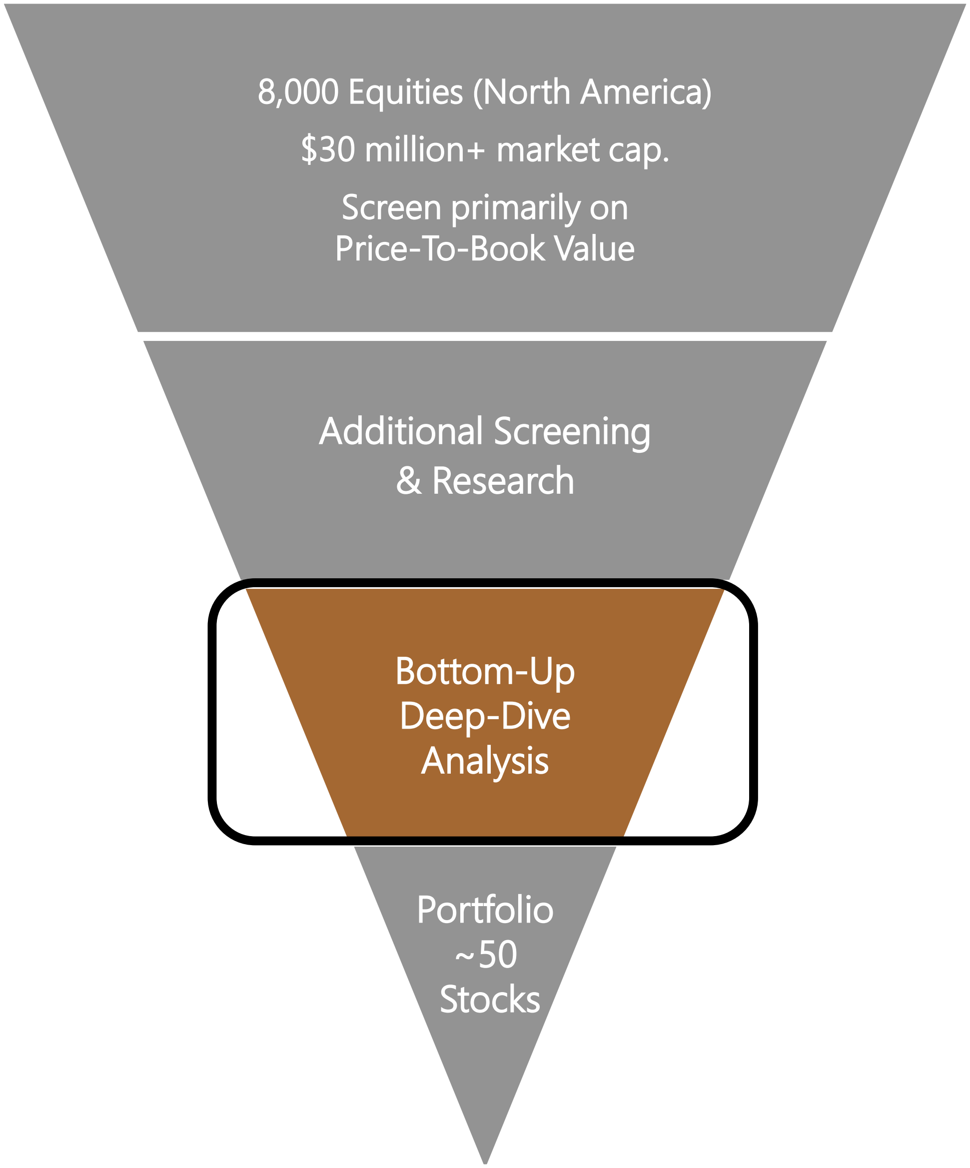
- **Independent / Contrarian Mindset**
  - Invest in companies that are fundamentally undervalued and often unpopular
  - Work to avoid recency bias in our behavior – *seek to be aggressive amid market panics and cautious when sentiment is overly bullish*

- **Focus / Experience**
  - Investment team has an average of 17 years of small-cap value investing experience
  - Well versed in a large number of companies within this segment
  - Aim to reduce risk by diligently and systematically working to obtain an evidence-based, detailed understanding of company fundamentals

- **Unconventional**
  - Do not rely on historic price volatility as an effective measure of investment risk – consider permanent capital loss the true measure of risk
  - Will concentrate capital in a particular sector and in a small number of holdings
  - Do not manage invested capital to avoid short-run index tracking error

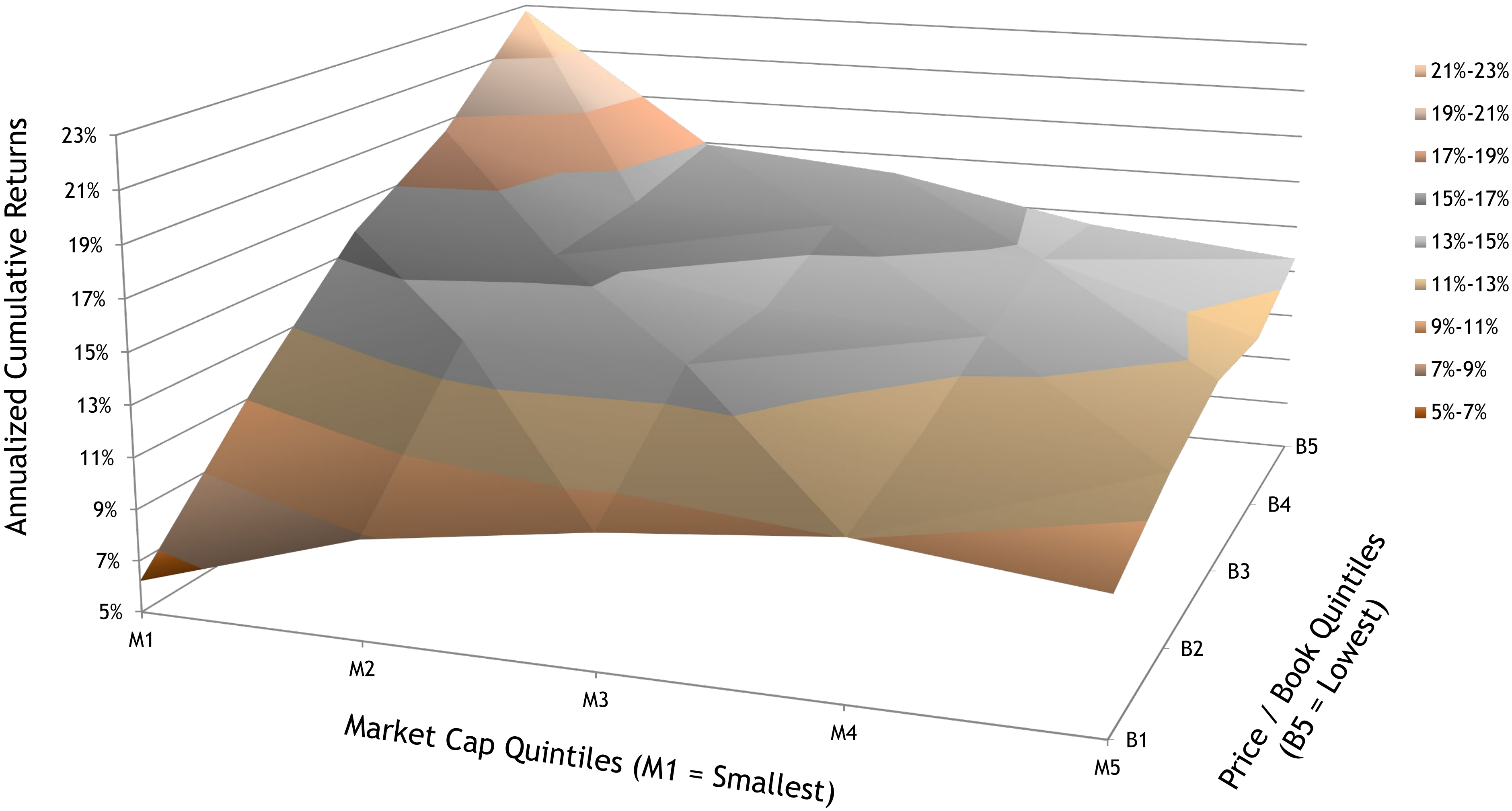
- **Patient / Long-Term Oriented**
  - Twenty years in the business has taught us the patience and fortitude necessary to ride out temporary periods of volatility and price compression

The Aegis Investment Process



- Review:
  - Company financials
  - Corporate presentations
  - Regulatory filings
  - Historic conference call transcripts
  - Industry publications/periodicals
  - Sell-side research
  - Management Interviews
  - Channel Checks
- Recast balance sheet with book-to-market asset and liability adjustments
- Determine normalized free cash flow 2-3 years out
- Assess management capability, capital allocation discipline, ethics (agency risk)
- Invest when stock sufficiently discounted to intrinsic value, particularly if we see a catalyst

Low Price-To-Book Investing Has Historically Been Fertile Hunting Ground



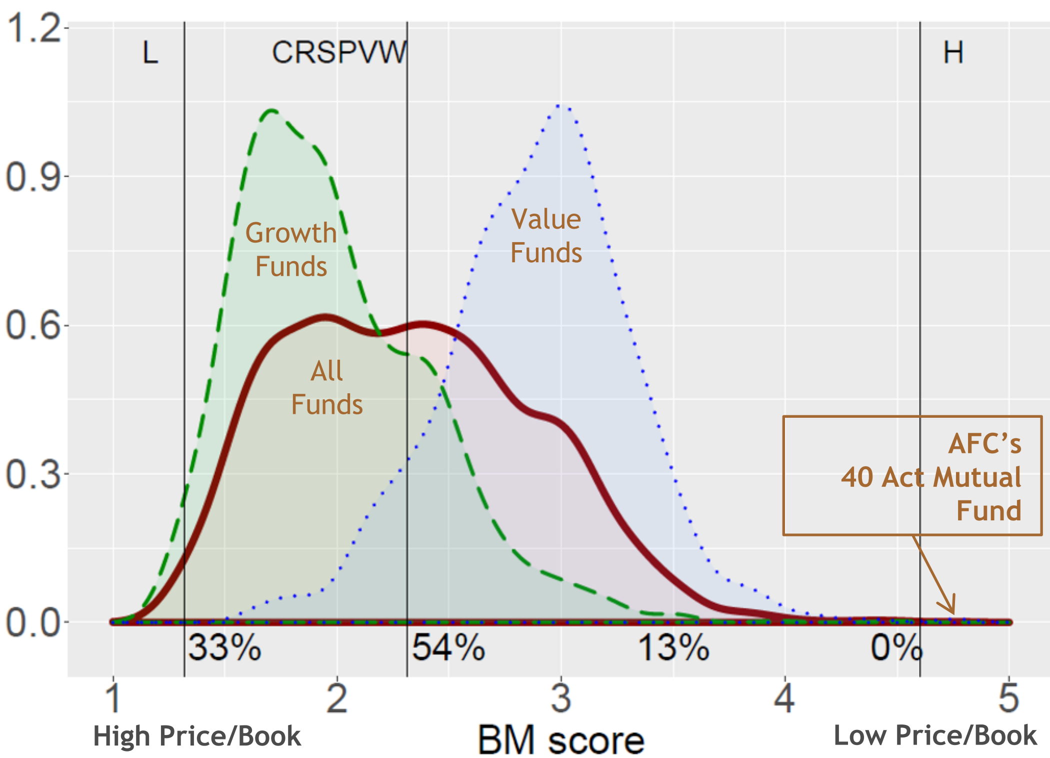
Past performance does not guarantee future results.

Return data is compiled by Dartmouth Professor Kenneth French using stock performance and attribution statistics provided by the Chicago Booth School Center for Research In Security Prices (CRISP) for all stocks on the NYSE, AMEX and NASDAQ markets for which data is available. The U.S. Research Returns Data series graphed is the "25 Portfolios Formed on Size and Book to Market (5X5)" series, whereby all stocks are sorted annually at the end of each June into quintiles by market capitalization and also separately into quintiles by price-to-book value. The intersection of these two quintile breakdowns results in the 25 portfolios. Each year's annual performance for each portfolio is determined by calculating the return of an equal investment in all stocks sorted to a particular portfolio during a particular annual period. Returns shown in the graph are the annualized cumulative returns derived from each portfolio in the series. The annual data series, available at (http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html), begins in 1927, but because of incomplete portfolio data prior to 1931, we show this series from 1932 onward.

2021 NBER Research: Virtually No True Low Price-to-Book Mutual Funds

- Independent, academic study[1] of more than 2,900 funds over a 38-year period found a noticeable lack of mutual funds that provided significant exposure to low price-to-book securities
- Study concluded average value fund was closer to growth/value blend – and actually skewed closer to growth
- *"To put this differently, an investor can easily find "growth" mutual funds that are [highest quintile based on price/book], but it is **virtually impossible** to use mutual funds to mimic the "value" portfolio [lowest quintile based on price/book]."[2]* (emphasis added)

Figure 1: Distribution of Book-to-Market Ratios of Mutual Funds



Source: Lettau, Lundigson, & Manoel, Page 2.

- Study of 2,993 mutual funds (636 Value, 1,257 Growth, 1100 Other) from 1Q1980 to 4Q2018.
- Each fund's average BM Score over the study period was determined by the authors using CRSP-VW / Thomson-Reuters mutual fund data.
- BM Score is calculated from the book-to-market ratio of a fund's portfolio and is based on the 1992 work of French & Fama, "The Cross Section of Expected Stock Returns"[3]
- For each quarter-end of the study period, all stocks were segmented into quintiles based on price/book, with each portfolio holding being given a value 1-5 based on the quintile into which it fell. The average of all portfolio holding was the BM score for the mutual fund.
- Book-to-market is the inverse of price-to-book. The ***higher the BM score***, the ***lower the price/book*** average of the mutual fund analyzed.

1. National Bureau of Economic Research, Working Paper 25381, "Characteristics of Mutual Fund Portfolios: Where are the Value Funds?" Lettau, Ludvigson, & Manoel. December 2018, Revised February 2021. (https://www.nber.org/papers/w25381)
2. Lettau et al, page 2. Authors referring to the "L" and "H" portfolio, respectively, as described by Fama-French, 1992.
3. Fama, Eugene and Kenneth R. French, 1992, The Cross-Section of Expected Stock Returns, The Journal of Finance 47 427–465.

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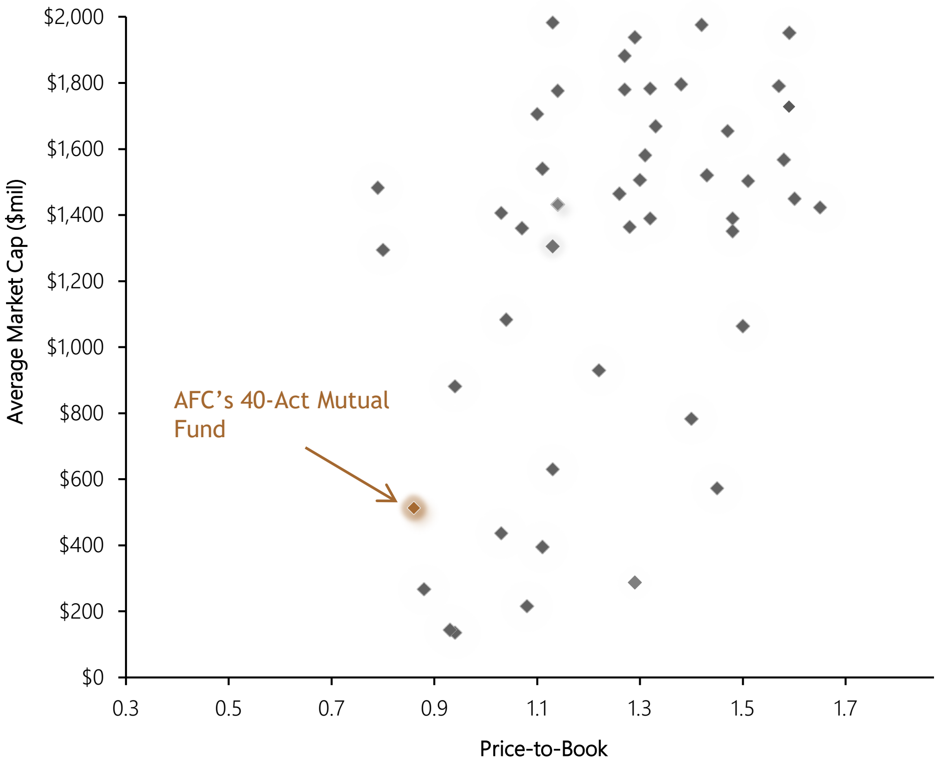
Aegis is a Highly Differentiated Fund in the Small Value Space

- Aegis portfolio valuation metrics show material differentiation versus both competitors and the broad market.
- Aegis offers the opportunity to obtain market exposure at a much lower price-to-book valuation multiple than the S&P 500 Index. We believe this helps mitigate risk of permanent capital loss.

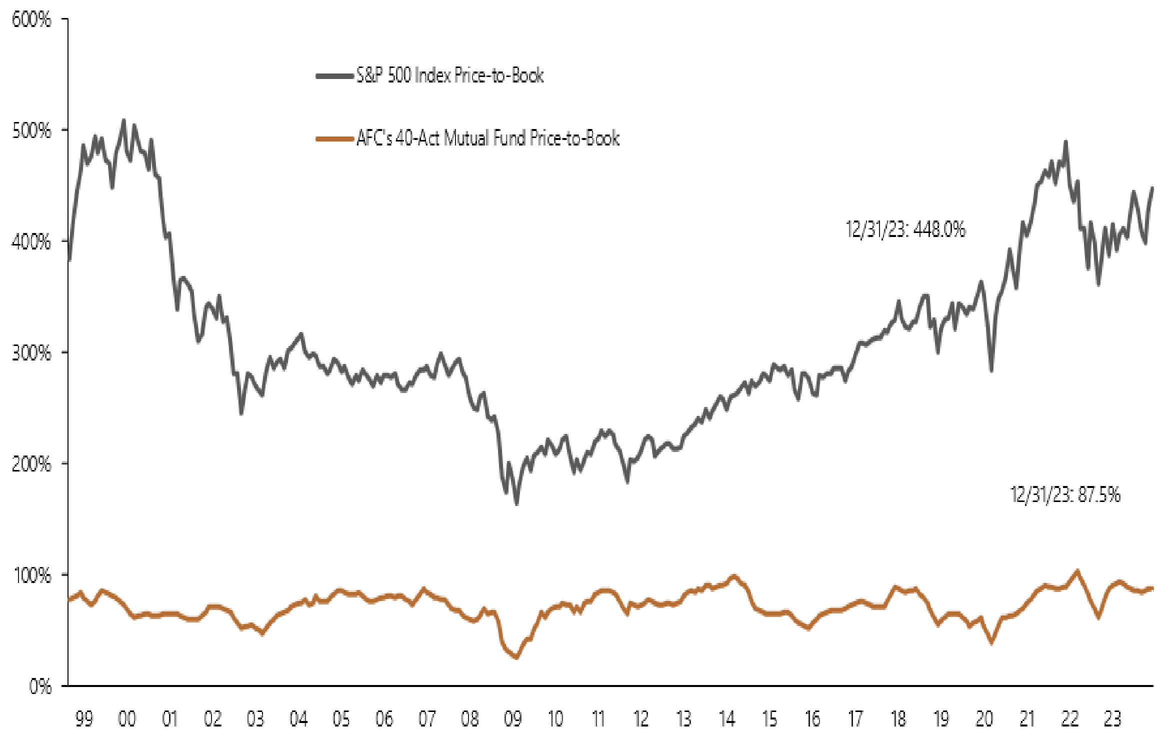
Average Market Cap and Price-to-Book Ratios of Domestic Small Cap Value Funds*



*Morningstar Fund Screen for the domestic, small cap value fund category as of 12/31/2023. Excludes funds with greater than $2 Billion average market cap. Only one share class used per fund.

Source: Morningstar

Aegis Financial Corp's 40-Act Fund and S&P 500 Index Historical Price-to-Book Ratio



Source: Aegis Financial Corp. and Bloomberg

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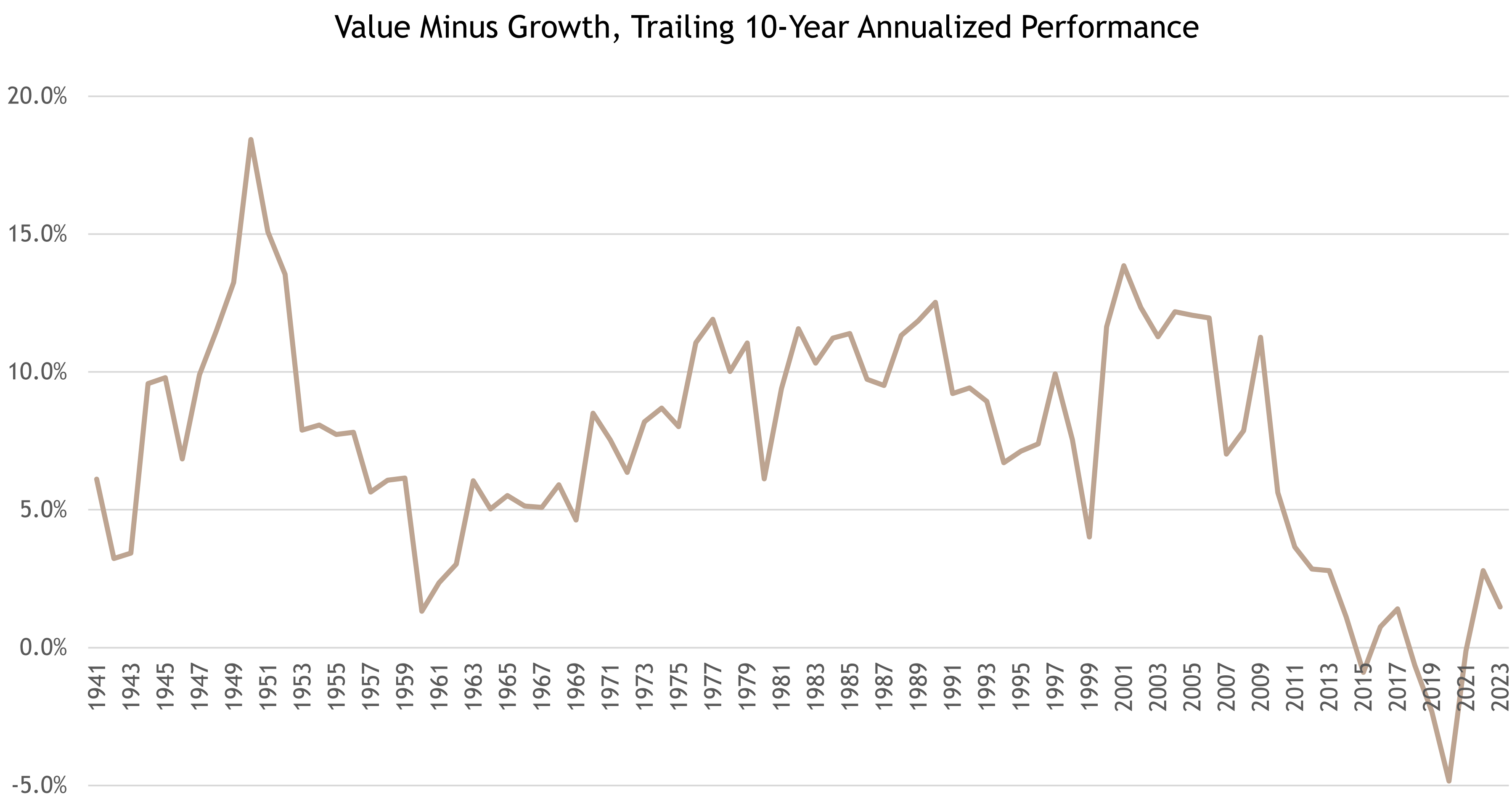
A View From the Trenches

While Value Has Historically Triumphed, The Last 10-Years Have Been a Hard Fight



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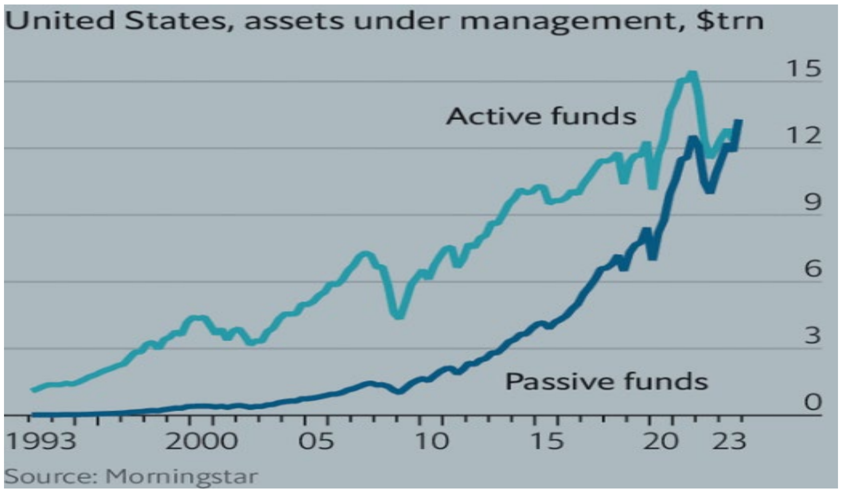
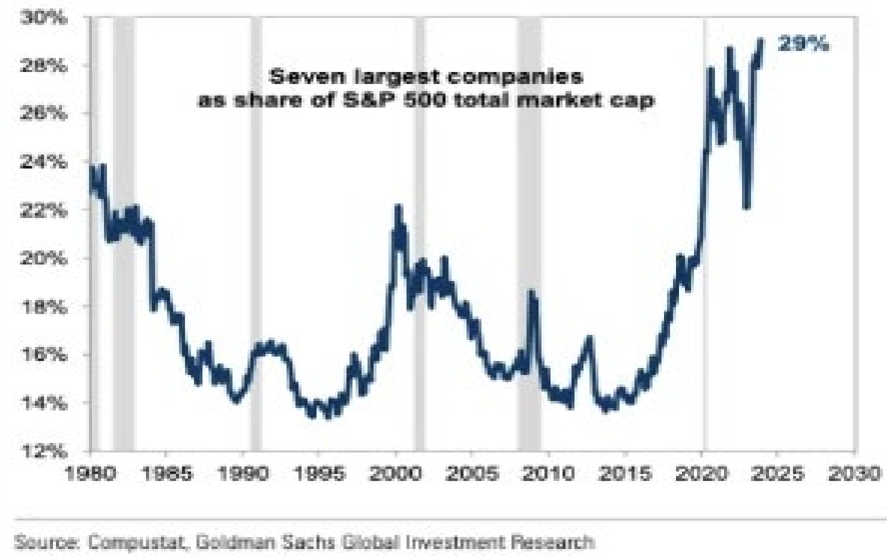
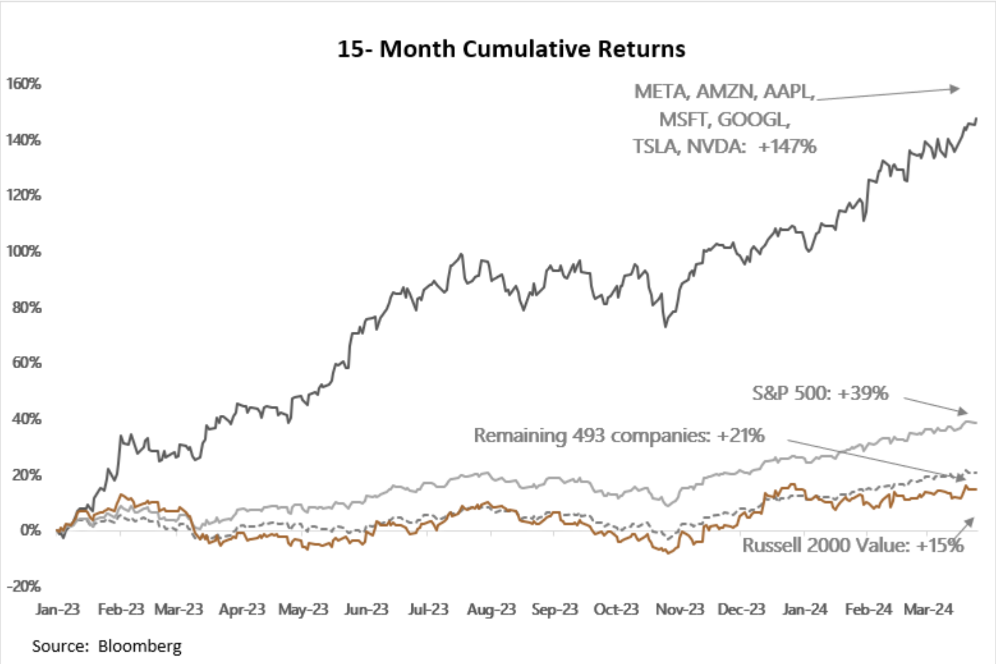
Passive Investing has Now Dominates the Investment Landscape

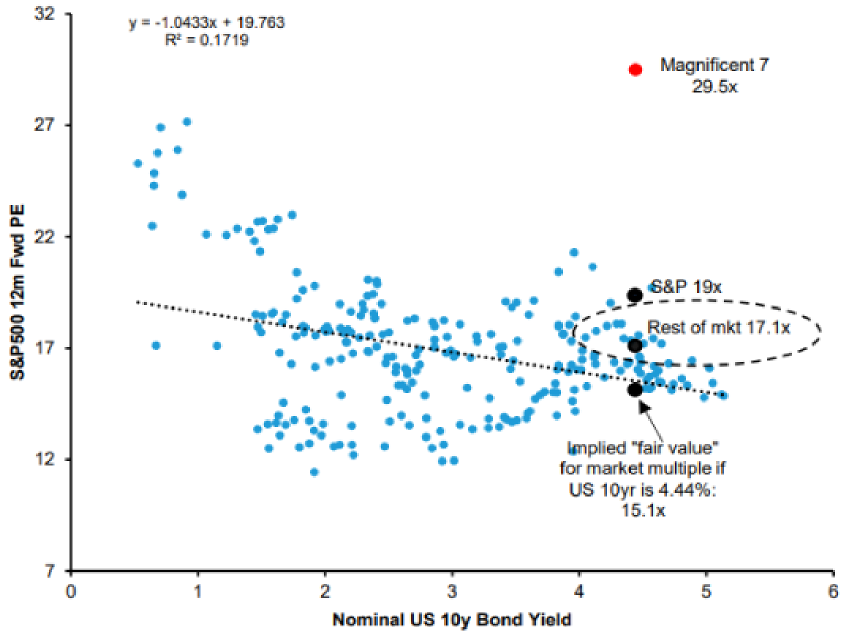




- Significant Increase in passive market share, now comprising over 50 percent of all fund AUM on the back of the "set it and forget it" marketing strategy.
- Passives increasingly price-makers, not price takers. Market cap passive weightings are pro cyclical.
- Top seven names heavily dominate the passive space today, comprising a historically high 29 percent of assets indexed to S&P 500.
- Huge flow into passives has hurt active management and negatively impacted "off-the-run" securities. Self reinforcing dynamics. Evidence of market pricing disfunction.

Index Gains Driven by Narrow Subset of Extended Tech Stocks

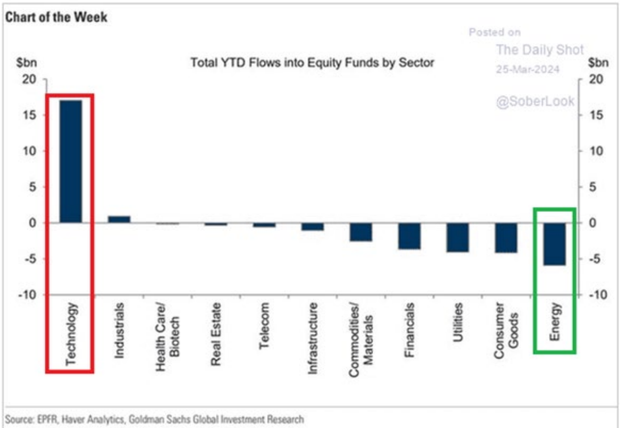




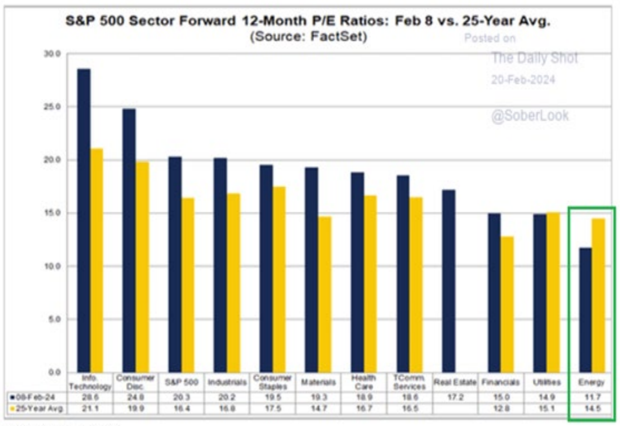
Scatter plot using monthly data over last 20 years of S&P 12m fwd P/E multiple vs. US nominal 10yr bond yield.
Source: Bloomberg, Bernstein analysis

- The top "magnificent seven" stocks driving S&P500 passive returns appear to be priced increasingly speculatively, with significant attendant risks.
- Multiple expansion happening despite higher interest rates, which should be putting downward pressure on valuations.
- Conclusion: Market susceptible to substantial declines, particularly if nominal 10-year Treasury yields remain elevated.

Despite the high valuations, Technology is Capturing Investor Flows



- Investors are pouring capital into technology funds



Source: The daily Shot

- Despite tech valuation multiples being well above long-term averages

- And heavy selling by technology insiders

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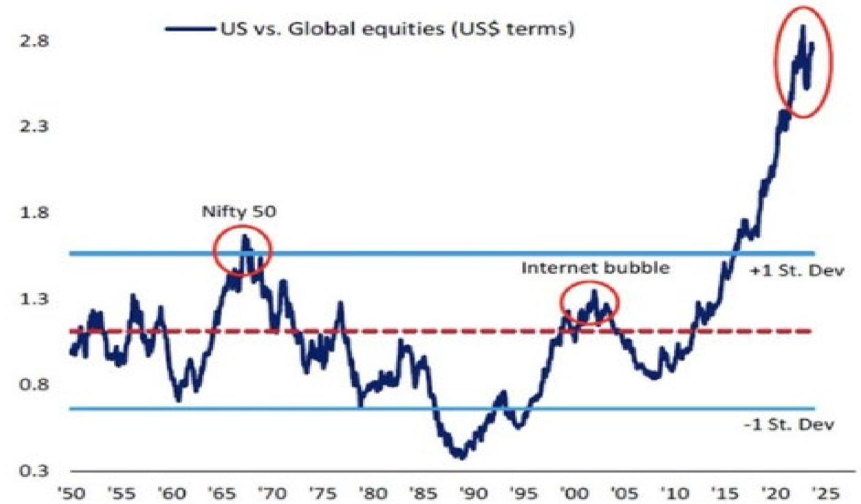
Small Caps and Global Equities Are a Target Rich Environment

S&P 500 Index/Russell 2000 Equal Weight Index)

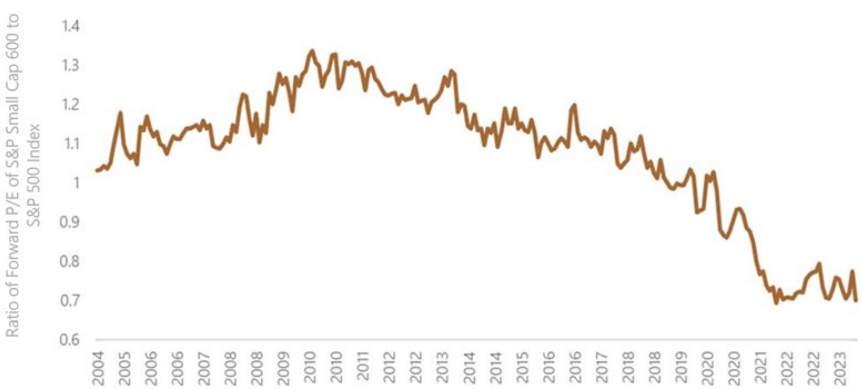
Source: Bloomberg

US vs. World ex-US equities (relative price performance, USD)



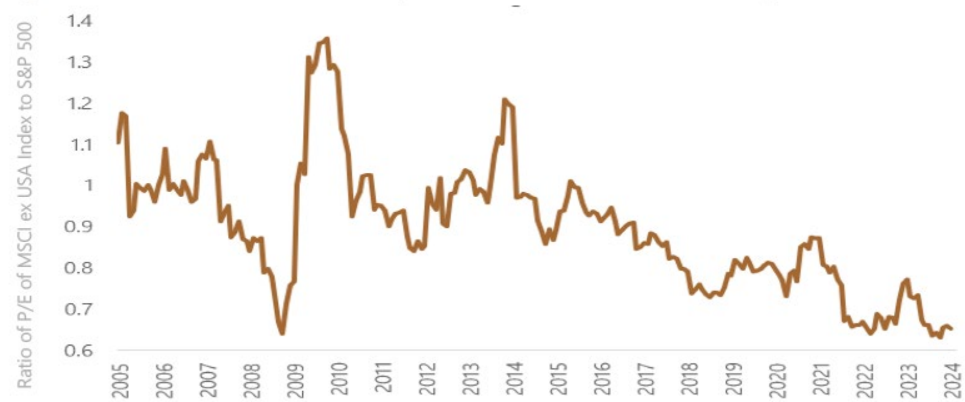
Source: BofA Global Investment Strategy, Global Financial Data

Figure 2: Small Caps At Lower P/E Multiples: S&P Small Cap 600 Index P/E Divided By S&P 500 Index P/E



Source: Bloomberg (Data from 12.31.04 to 01.31.24), Valuations of Forward P/E Multiples

Figure 3: International Stocks at Lower P/E Multiples - MSCI World ex USA Index P/E Divided By S&P 500 Index P/E



Source: Bloomberg (Data from 1/1/05 to 01.31.24), Valuations of Forward P/E Multiples

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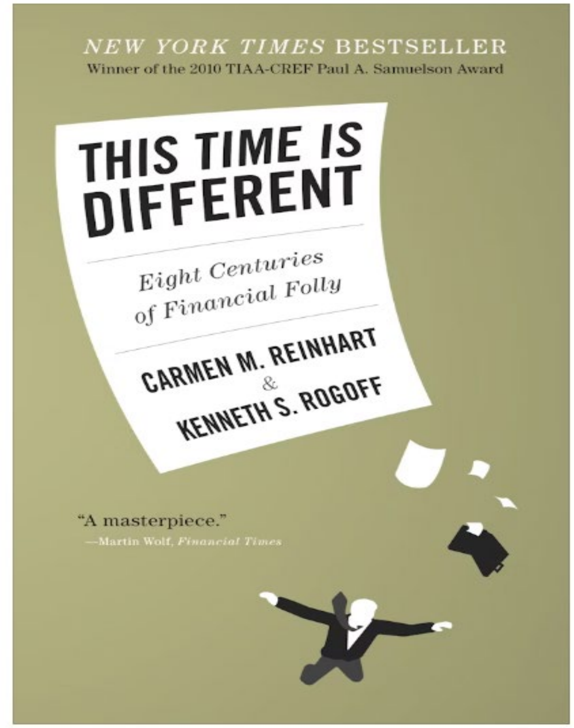
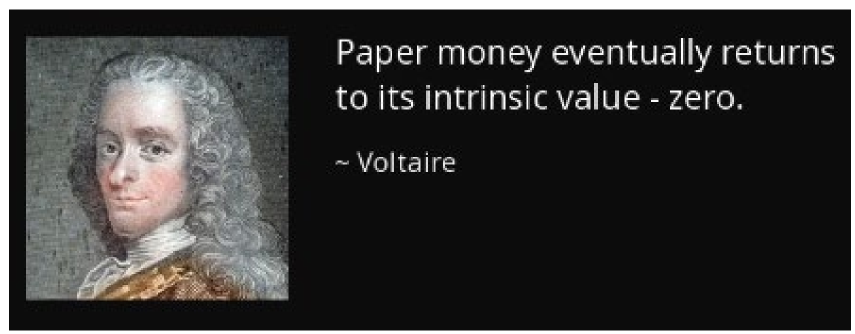
Huge Fault Line in the Current Investment Landscape: Historic U.S. Fiscal and Monetary Challenges



- Gross Federal Debt now nearing $35 trillion. Increasing $1 trillion last 100 days.
- $7.6 trillion will need to be refinanced in 2024. CBO projects an additional $1.6 trillion of new issuance from deficit spending
- Much of the outstanding stock of Treasuries have been yielding less than the rate of inflation in recent years. Higher interest required.
- Investor appetite for Treasuries appears increasingly unreliable, particularly after dollar was weaponized against Russia in 2022.
- Possibility of Fed yield-curve control with inflationary outcomes.
- Cash/Bonds may not be as protective in preserving purchasing power as has been case historically



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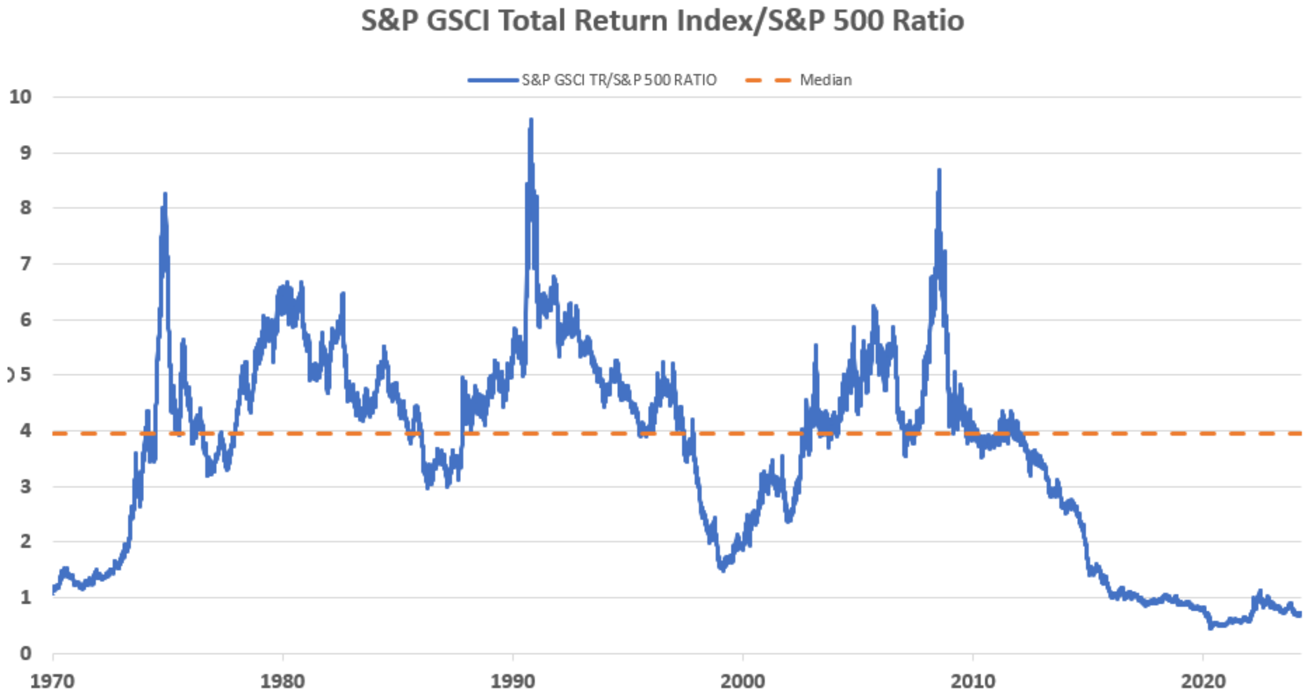
Commodities Present Opportunity for Value Investors Today



Source: Bloomberg

- Commodities appear to be at cyclical lows relative to large-cap equities
- Commodities viewed as risky because of high historic volatility
- Rise of ESG-focused investing and divestment movements
- Commodities tied to global economy experiencing the long-term tailwinds of S-curve development of industrializing countries
- Following EV mandates would require immense battery metals

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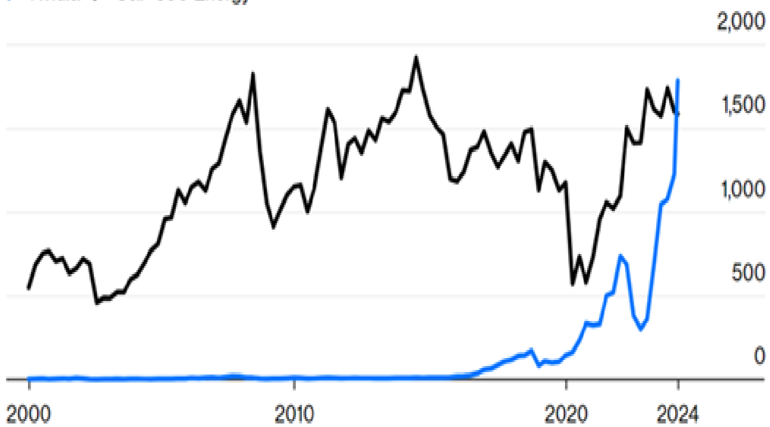
Energy Powers the AI Technology Revolution

The Chips Are Up

Stock and sector market capitalization, quarterly, in billions of dollars

Nvidia / S&P 500 Energy



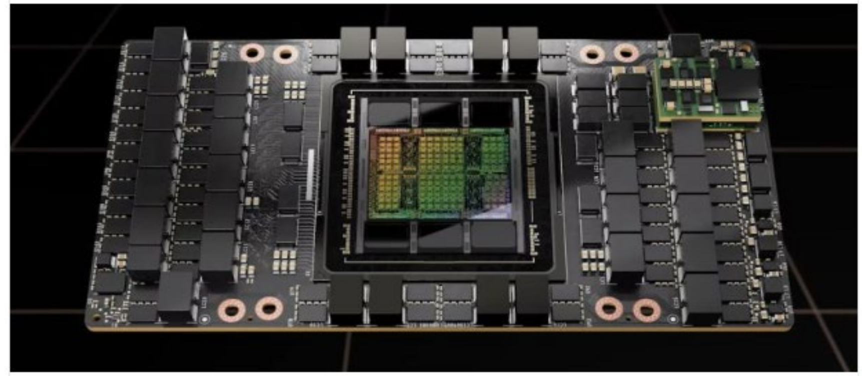
Source: Bloomberg

- Nvidia - $2.4 trillion Market Cap vs FCF of $27 billion (Forward FCF $54 billion)
- Microsoft - $3.1 trillion Market Cap vs FCF of $60 billion
- Entire S&P 500 Energy Sector - $1.5 trillion Market Cap vs FCF of $134 billion

- $3.8 trillion investment in renewables over 10 years dropped fossil fuels from 82 to 81 percent of overall energy consumption.

Paul Churnock, PE
Principal Electrical Engineer - DC Technical Governance and Strategy at Microsoft
3mo

This is Nvidia's H100 GPU. It has a peak power consumption of ~700W. At a 61% annual utilization, it is equivalent to the power consumption of the average American household occupant (based on 2.51 people/household). Nvidia's estimated sales of H100 GPUs is 1.5-2mil H100 GPUs in 2024. Comparing to residential power consumption by city, Nvidia's H100 chips would rank as the 5th largest, just behind Houston, Texas and ahead of Phoenix, Arizona.



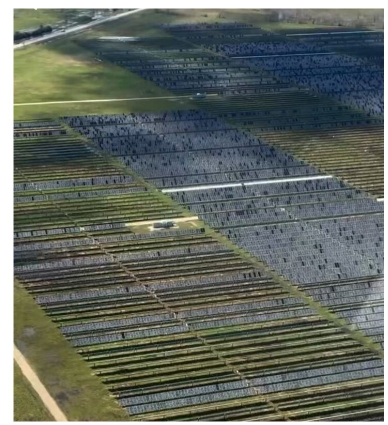
Source: @Barchart

The Coming Electricity Crisis

Artificial-intelligence data centers and climate rules are pushing the power grid to what could become a breaking point.

By The Editorial Board Follow
March 28, 2024 at 5:45 pm ET

Resize 737 Gift unlocked article Listen (5 min)



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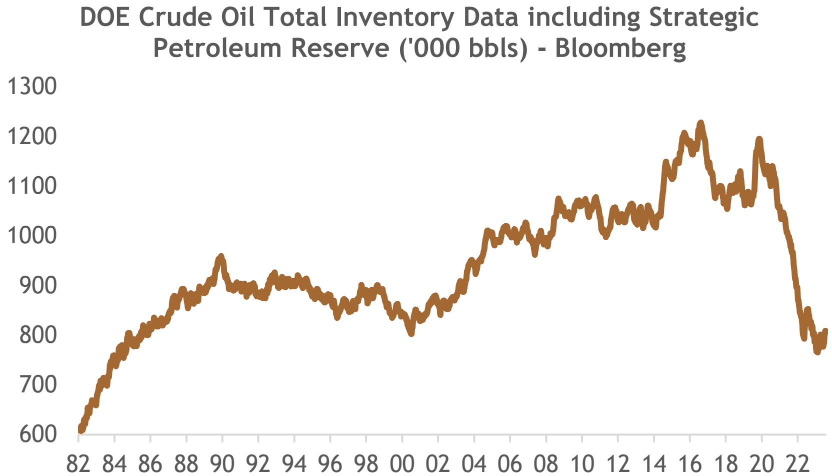
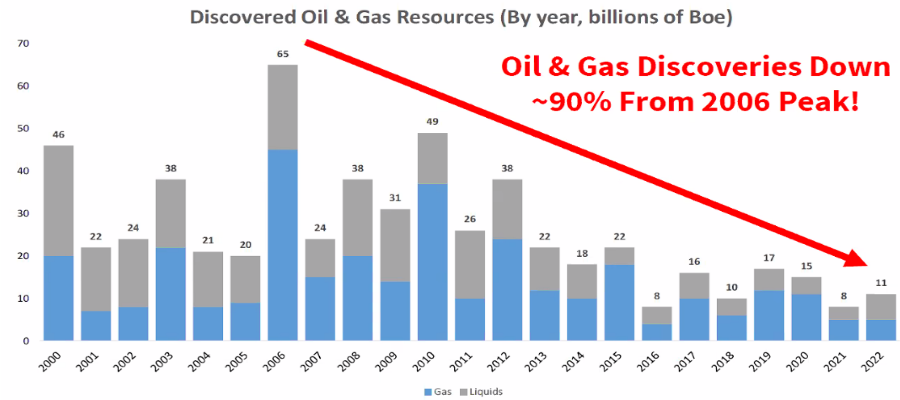
Long-Term Oil & Gas Supply May be Tighter than Thought

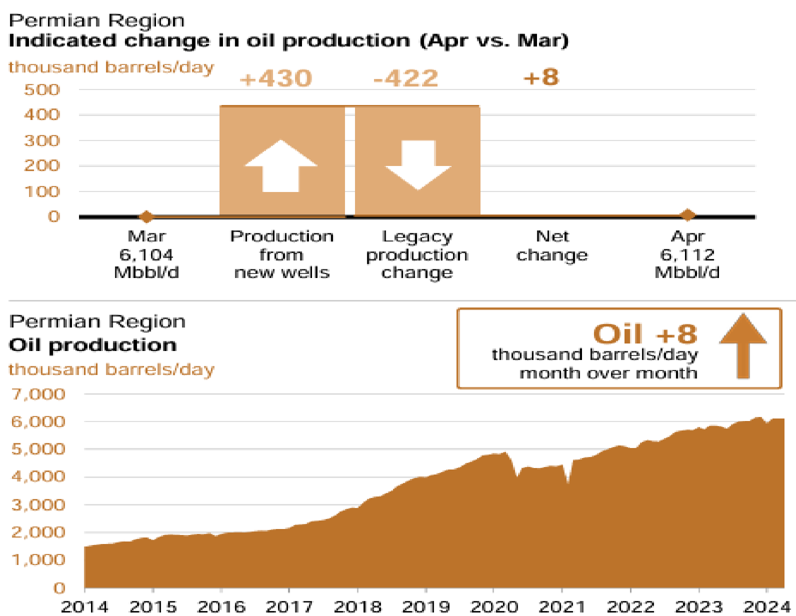
Supply Dynamics Strongly Suggest



Global Exploration Down Sharply



Source: Rystad, Raymond James Research



U. S. Energy Information Administration | Drilling Productivity Report

- Oil supply supplemented by inventory liquidations in recent years
- Supply growth from US shale, responsible for 8 million barrels per day of additions since 2010, is unlikely to continue
- Excess capacity at OPEC may be overstated. Saudi estimated by IEA to have 12 million bbls/day (3 mil excess) capacity. No Saudi history of consistent production above 10 million bbls/day.

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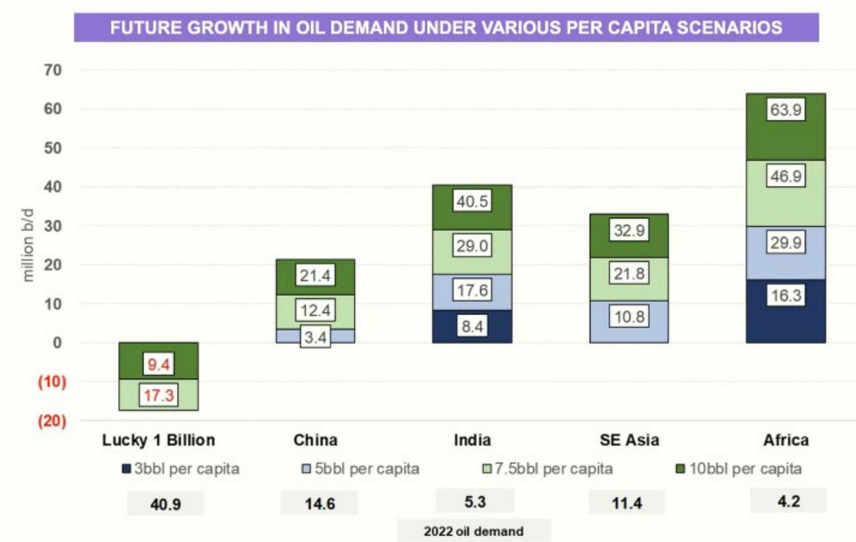
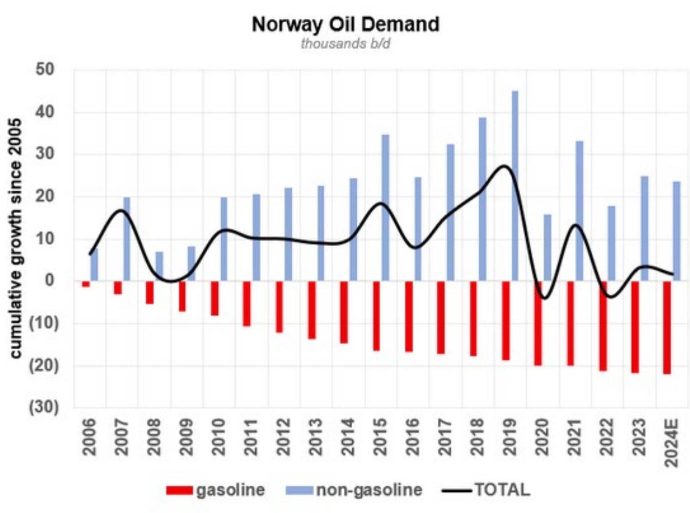
Oil Demand Growth Supported by Powerful Long-Term Trends



Source: EI Statistical Review of World Energy, IEA, Our World In Data, Veriten.



Source: IEA, Veriten.

- Long-term oil demand per-capita growth trends from China, India, SE Asia and Africa as these countries develop.
- Any potential per-capita energy declines in the developed world arising from conversion to alternative energy likely to be insufficient to offset growth elsewhere.
- Oil demand has been stable even in Norway, where the EV adoption rate is among the highest in the world. 82 percent of new car sales were EVs in 2023 and 20 percent of all passenger vehicles are now EVs.

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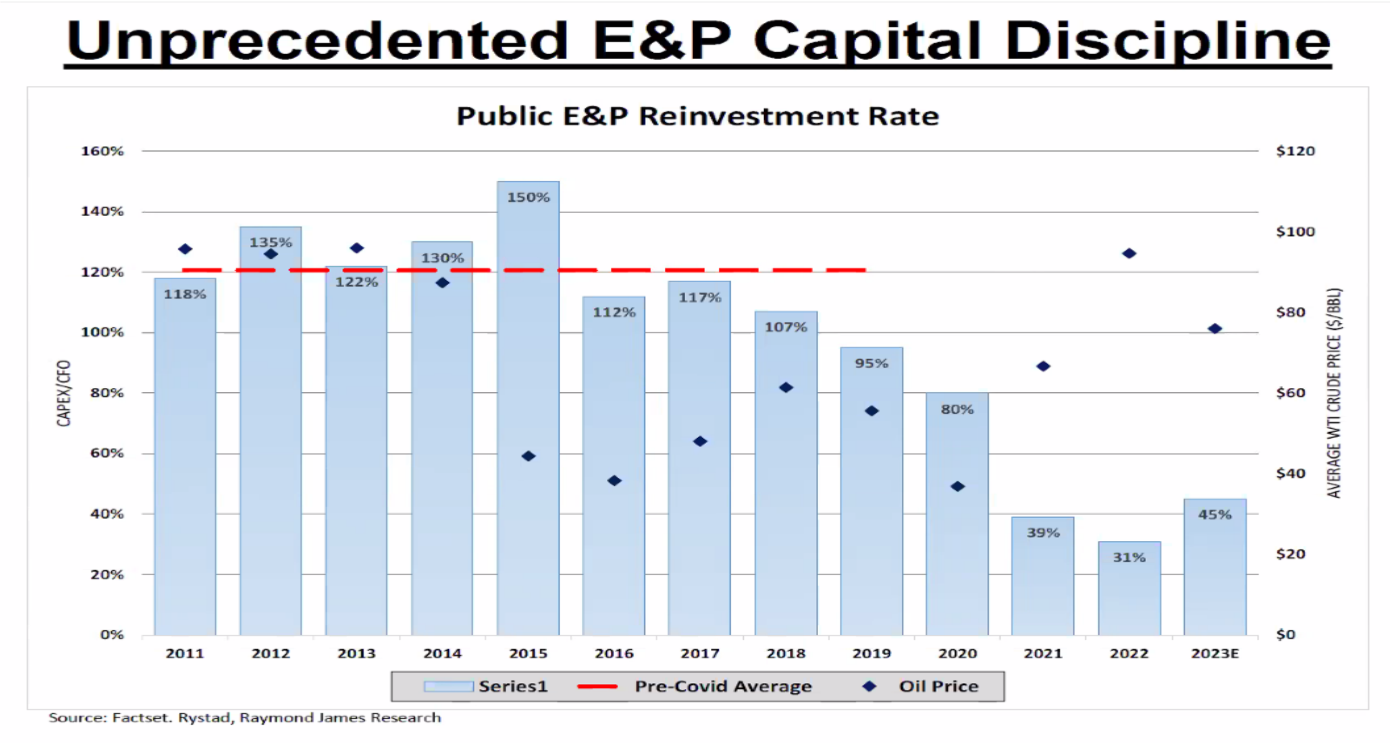
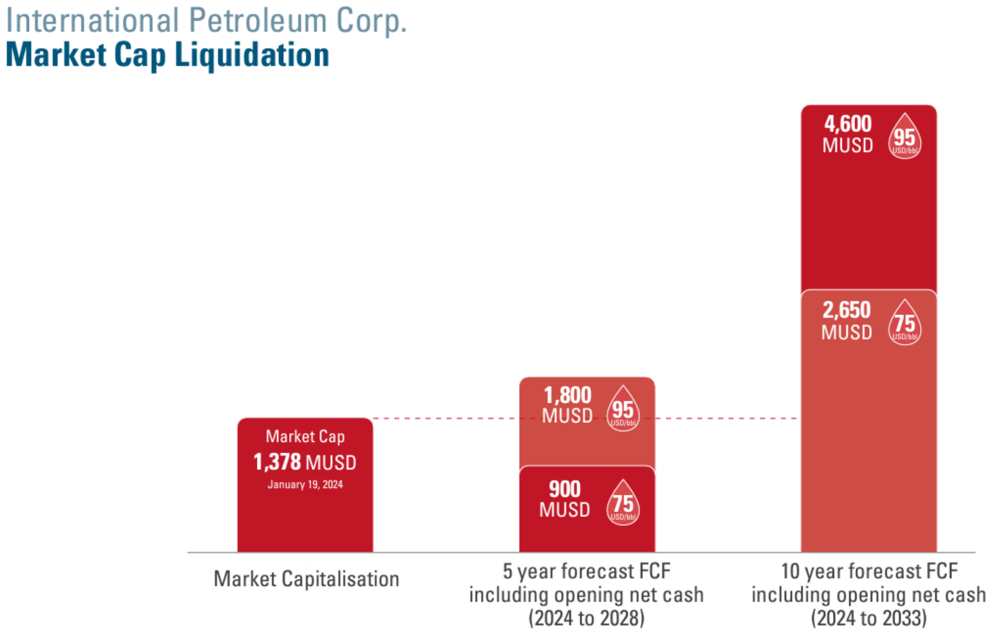
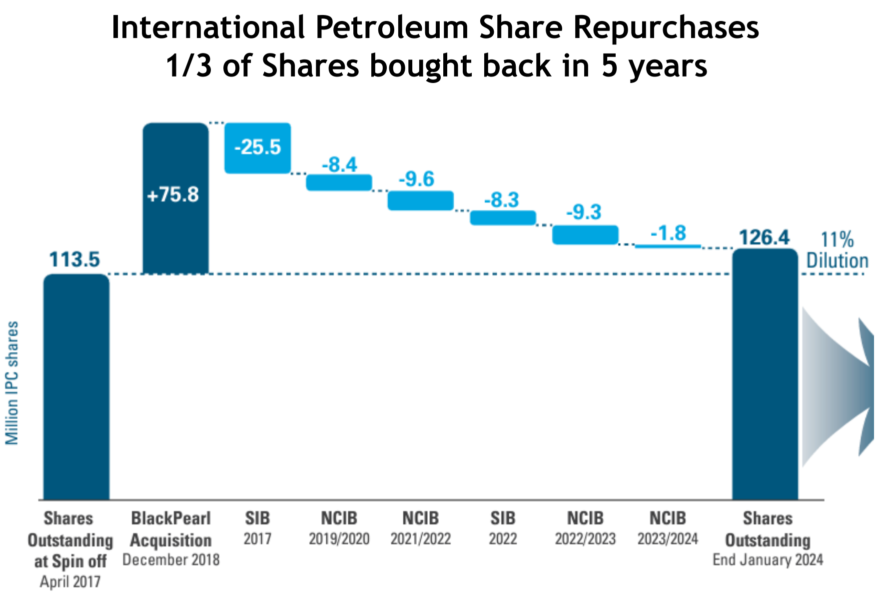
Capital Allocation At Energy Companies Have Recently Been Excellent



- E&P Industry exhibiting excellent capital discipline
- Companies are prioritizing debt repayment/shareholder returns over expansion
- Supply additions likely to be delayed, resulting in opportunity for extended cycle

International Petroleum Corporation – An Exemplary Soldier





- Lundin family management, which owns 32 percent of company, has excellent history of strong shareholder returns and good governance.
- 27-years of 2P Reserves at current production levels, with additional 50 years of contingent resources at Blackrod.
- Company future production and reserves are Northern Canada SAGD-focused, with some of the lowest base-decline rates of (~14 percent) of any production in North America.
- Company currently expanding SAGD production at a capital cost per future flowing barrel well below valuations of other current SAGD producers.
- At current oil prices, free-cash flow could buy back nearly entire market capitalization in next five years.

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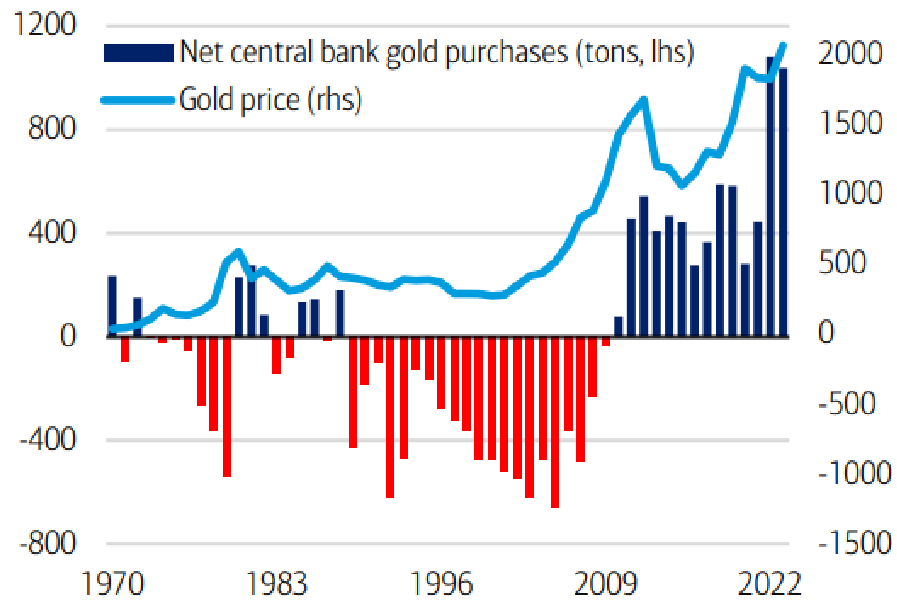
Gold Appears to be at an Inflection Point



Source: BofA Research Investment Committee, Refinitiv GFMS, Metals Focus, Bloomberg, WGC

- Recent gold price performance appears less driven by gold ETF flows today, breaking historic correlations.
- Global central bank attitude towards gold holdings has grown stronger in recent years.
- Gold has also significantly outperformed Treasuries.

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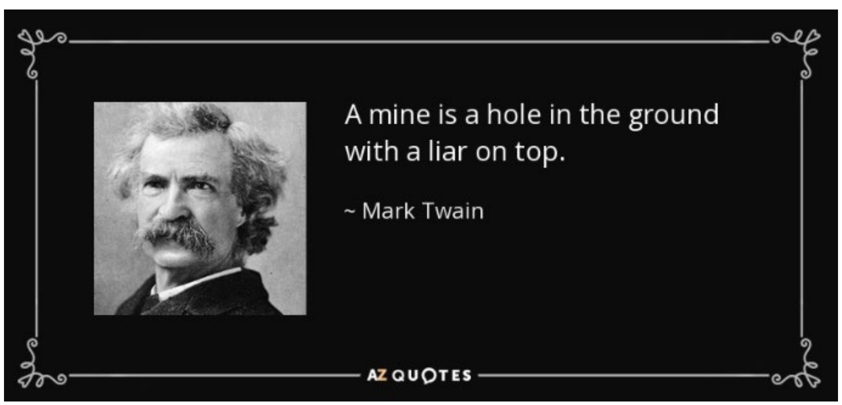
Source: Bloomberg, fund documents, as of December 2022, Capital Limited

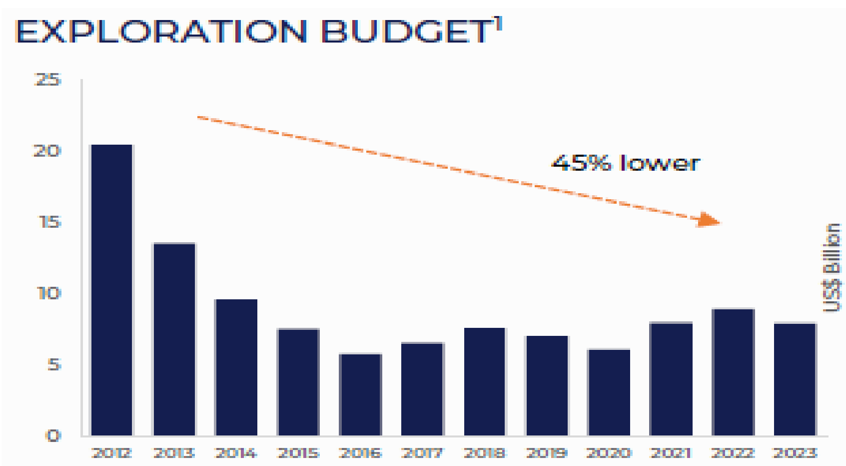
- Investor fatigue has left specialist firms starved of capital in recent years.
- Decline in specialist capital has resulted in less market efficiency in the sector
- Magnified when the precious metals mining ETFs are in liquidation
- As a result, precious metals projects are capital constrained, driving higher potential returns

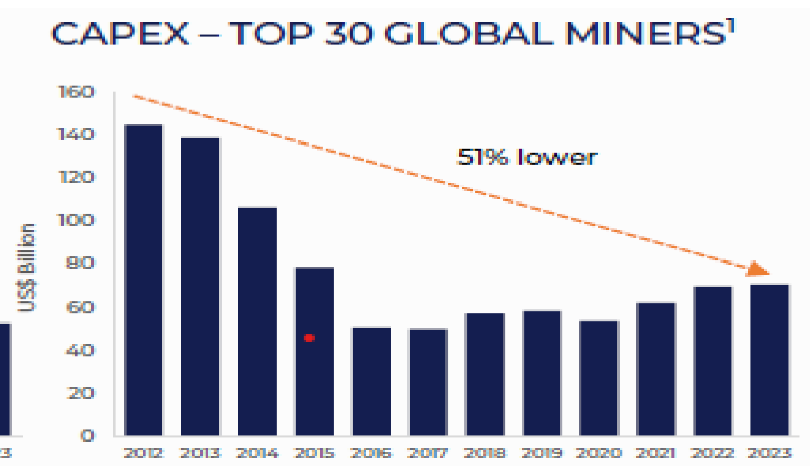


Precious Metals Miners Have Been In Cyclical Decline While Gold Prices Have Climbed - A Potential Opportunity

Source: Bloomberg

- Precious metals mining stocks today are not reflecting recent gold price increases.
- Capital flows into precious metals mining stocks constrained in recent years, leading to exploration and development retrenchment
- Gold reserves at the top 10 mining companies has declined by a third since 2011 to just 400 million ounces.
- Big-cap mining companies have been reducing debt – 7 years of deleveraging





Source: S&P Global Market Intelligence

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A Mining Example : Newcore Gold - Cad $27 million mkt cap debt free

ENCHI GOLD PROJECT - 2021 PEA

A Robust Project with Significant Growth Potential - PEA Update Underway

Simple, open pit, heap leach operation

- Processing 6.6 mtpa, contract mining
- Low LOM strip ratio of 2.1 to 1

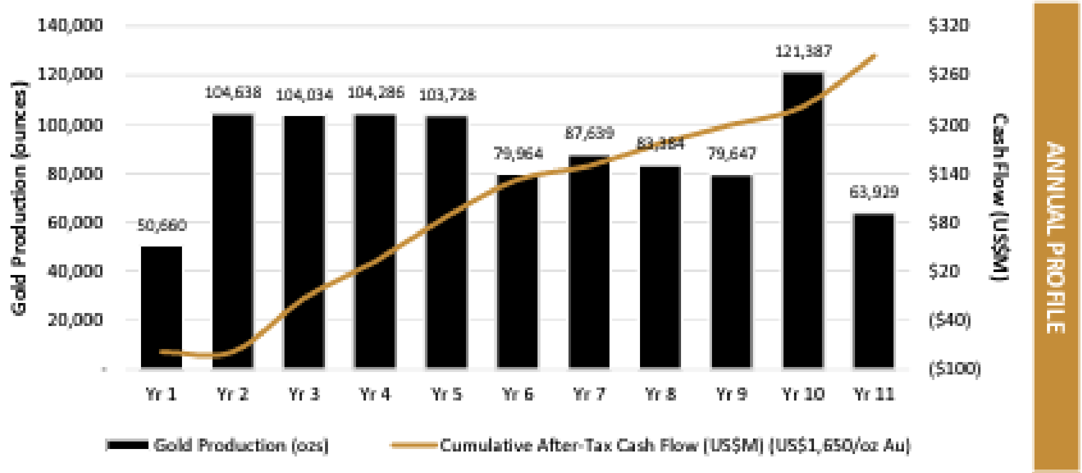
Strong economics, low capital intensity

- US$212 million after-tax $NPV_{5\%}$, 42% after-tax IRR (US$1,650/oz Au)
- Initial capital estimated at US$97 million, short after-tax payback of 2.3 years

Robust project with growth potential

- ~104,000 ounces of annual production in years 2 to 5, peak production in year 10

Project economics provide significant NPV leverage to the gold price



SENSITIVITY ANALYSIS

(US$ where applicable)

Gold Price (US$/oz)	$1,450	$1,550	$1,650 (BASE CASE)	$1,750	$1,850	$1,950
Pre-Tax $NPV_{5\%}$ (US$M)	$195 M	$264 M	**$333 M**	$402 M	$471 M	$540 M
Pre-Tax IRR	36%	45%	**54%**	62%	69%	77%
Pre-Tax Payback	2.7 years	2.3 years	**2.1 years**	1.9 years	1.7 years	1.6 years
After-Tax $NPV_{5\%}$ (US$M)	$123 M	$168 M	**$212 M**	$257 M	$302 M	$347 M
After-Tax IRR	29%	36%	**42%**	48%	54%	60%
After-Tax Payback	3.0 years	2.6 years	**2.3 years**	2.1 years	1.9 years	1.8 years

Source: Newcore Gold presentation slide

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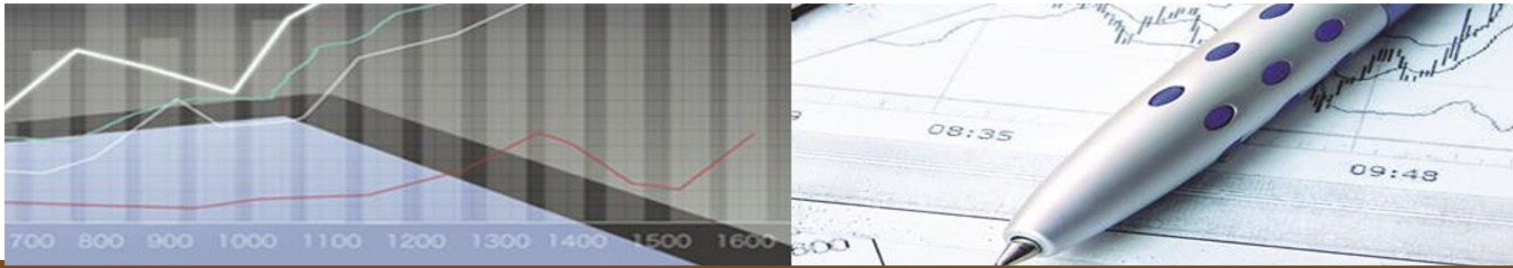

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