AMG SouthernSun Global Opportunities Fund

COMMENTARY

ASSET CLASS | INTERNATIONAL EQUITY

Class N | SSOVX   Class I | SSOLX

SouthernSun Asset Management

Average Annual Returns (%)[1] (as of 03/31/18)

	QTD	YTD	1 yr	3 yr	5 yr	Since Incpt.[2]
SSOVX (Class N)	-1.37	-1.37	9.76	–	–	9.26
SSOLX (Class I)	-1.27	-1.27	10.22	–	–	9.58
MSCI All Country World Index	-0.96	-0.96	14.85	8.12	9.20	15.96
MSCI All Country World Index SMID Cap	-0.47	-0.47	15.94	8.55	9.82	16.60

SSOVX (Class N) Expense Ratio (Gross/Net)[3]: 4.42%/1.73%
SSOLX (Class I) Expense Ratio (Gross/Net)[3]: 4.05%/1.36%

The performance data shown represents past performance. Past performance is not a performance data quoted. The investment return and the principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. For performance information through the most recent month end, please call 800.835.3879 or visit our website at amgfunds.com. From time to time the advisor has waived fees or reimbursed expenses, which may have resulted in higher returns.

The **AMG SouthernSun Global Opportunities Fund** (Class N) returned -1.37% for the first quarter of 2018, compared with -0.96% for its primary benchmark, the MSCI All Country World Index. For the 12 months ending March 31, 2018, the Fund returned 9.76%, while the primary benchmark returned 14.85%. Please note that this Fund has multiple share classes.

We believe that many of the Fund's portfolio companies are performing well right now despite market volatility and that their execution and performance creates continued opportunity for value creation. Darling Ingredients, Inc. (DAR) continues to move up the value chain through the expansion of both its Diamond Green Diesel joint venture with Valero Energy Corp. and its wet pet food capacity. The Brink's Company (BCO) has reported progress on its sales and fleet initiatives and, we contend, is focusing more attention on logistics improvements on its routes and at its branches that may position the company as a more efficient operator. We are analyzing these and other initiatives at our portfolio companies and assessing their potential to improve the cash flow generating profile of these businesses. Historically, a good deal of our analysis has occurred in the field at company headquarters, their plants and facilities, at trade shows, and at industry conferences, and this continued during the period with research trips to AGCO Corp. (AGCO), Western Union Company (WU) and several other holdings, as well as a visit to our office by Newfield Exploration Company (NFX). Localiza Rent A Cars S.A. (RENT3) continues to report progress on its investments in and consolidation of the Brazilian rental car industry while Trinity Industries, Inc. (TRN) prepares for the announced spin out of its infrastructure products business units into a new publicly traded company.

We review, continually, the capital allocation programs of our holdings and believe that their management teams display business savvy, prudence and conservatism in their decision-making process. Centene Corp. (CNC), which we assert has operated historically with modest leverage, has announced the acquisitions of Fidelis Care adding New York State to the portfolio of states for which it manages health care delivery to underserved populations. NFX has announced a $4.2 billion capital spending program over the next three years focused on its core holdings in the Anadarko Basin of Oklahoma and has modeled positive free cash flow generation at and below current crude oil prices. Many of the Fund's other portfolio holdings have continued to allocate capital in smaller increments to bolt-on acquisitions that complement their ongoing operations, notably RENT3 which acquired The Hertz Company's Brazilian operations in 2017.

Stock selection in the energy and consumer discretionary sectors, led by Newfield Exploration Company (NFX) and Pendragon PLC (PDG), respectively, drove most of the underperformance in the period. This was offset, in part, by stock selection in the consumer staples and health care sectors where Bakkafrost P/F (BAKKA) and Centene Corp. (CNC) were leading contributors to performance, respectively.

Newfield Exploration Company (NFX) was the leading detractor from performance on a relative basis in the period. NFX is an independent energy company engaged in the exploration and production of oil and gas mainly in the U.S., but also in the South China Sea. NFX's drilling is focused in the U.S., specifically in the geologically favorable STACK and SCOOP plays of the Anadarko Basin in the Mid-Continent region.[4] We believe that the company is disciplined in its capital allocation and generally does not grow production unless that incremental growth clears certain financial hurdles. NFX consolidated some of its U.S. operations recently, and we believe that it maintains a conservatively leveraged balance sheet. We believe the company's assertion that it has a multi-year supply of drilling locations in the Anadarko Basin that should enable

[1] Returns for periods less than one year are not annualized.
[2] Since the inception of the Fund on July 11, 2016.
[33] The Fund's investment manager has contractually agreed, through at least February 1, 2019, to limit Fund operating expenses. The net expense ratio reflects this limitation, while the gross expense ratio does not. Please refer to the Fund's prospectus for additional information on the Fund's expenses

[4] STACK and SCOOP refer to oil drilling regions in Oklahoma.

its continued growth. In our view, management's track record of selling non-core assets and shifting capital to higher return projects will continue to create value. We contend that recent internal investments combined with asset sales and the purchase of additional STACK acreage have strengthened NFX's balance sheet and continued its capital allocation rotation into assets with a higher return profile. The stock traded down during the period, in line with other energy producers, despite an increase in oil prices in recent months. While a production decrease that coincided with new wells coming online, negative news from producers in other parts of the Anadarko Basin, and sentiment regarding the direction of global oil prices may have been contributing factors, we remain pleased with NFX's production profile, balance sheet, execution and capital allocation decisions.

Pendragon PLC (PDG), the leading U.K. auto dealer by revenue which we believe distinguishes itself through its position in the used car market and through its dealer management system, was another leading detractor from performance in the period. PDG maintains approximately 218 franchise locations split between Evans Halshaw (over 50% of revenue), the U.K.'s leading volume auto retailer, and Stratstone (approximately 35% of revenue), one of the U.K.'s premium auto retailers. We believe that the business generates consistent levels of cash flow and that it requires modest levels of investment in fixed assets. We contend that the 1998 acquisition and continued development of Pinewood, a provider of dealer management software and services to dealers and fleet operators, distinguishes PDG from other competitors in the marketplace. The company maintains a current net debt to EBITDA[5] ratio below its target of 1.0x–1.5x and its inventory is funded by manufacturers' finance subsidiaries, by banks or by third party finance companies. We believe that management has articulated a capital allocation strategy that includes reinvestment in the business in addition to share repurchases and dividends and that its pivot to a focus on used car and internet sales has benefited PDG.

P/F Bakkafrost (BAKKA), a salmon producer and processor located in the Faroe Islands, was the leading contributor to performance on a relative basis in the period. BAKKA controls roughly 60% of the water suitable for fish farming in the Faroe Islands which we contend gives it access to optimal water temperatures, favorable currents and the ability to mitigate the spread of disease. We believe that the company invests continually in projects that lower costs, improve product quality and strengthen its brand. The markets for BAKKA's salmon include Russia, Western Europe and North America. We believe the company benefited from lower global supply throughout most of 2016 due to illness in fish populations in other geographies, allowing it to achieve higher pricing for its salmon. More recently, some of this supply has returned, putting pressure on global salmon pricing. We believe that the recent capital allocation decisions made by BAKKA's tenured management team regarding its balance sheet and the upgrading and expansion of its processing facilities provide the company competitive advantages.

Localiza Rent A Car S.A. (RENT3), a rental car company operating largely in Brazil, was another leading contributor to performance on a relative basis in the period. The company holds approximately 45% market share in Brazil where it competes against several local firms and American rental car companies. In 2017, RENT3 purchased The Hertz Corporation's Brazilian operations and entered into a long-term strategic partnership with Hertz which includes cooperation in branding, technology and customer service. We believe that its scale as a major purchaser of automobiles in Brazil has led to an advantage in purchasing power for RENT3. The company operates stores on-premise at airports and at off-premise locations, serving both business and leisure customers. It operates a used car subsidiary which we contend enables the efficient liquidation of its rental fleet, often after one year versus the standard industry practice of three years. RENT3 has historically maintained a de-levered balance sheet and we assert that this, along with its fleet management, has contributed to attractive returns on total capital during recent inflationary periods in Brazil. We believe that its management team's capital allocation decisions have created value while increasing market share over time.

We continue to focus on the consistent application of our investment process and philosophy. This includes investing in high quality businesses trading at attractive valuations based on our proprietary research. We believe that it also encompasses a robust risk management process, focused on individual companies as well as aggregate risk across the Fund's portfolio. While our focus is on the quality of and execution at each company, we also seek to understand the macroeconomic and geopolitical environment in which we invest. We assert that our team approach to investing, with a focus on critical thinking and collaboration, supports this effort.

The views expressed represent the opinions of SouthernSun Asset Management, LLC as of March 31, 2018, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

[5] EBITDA refers to earnings before interest, taxes, depreciation and amortization.

Top Ten Holdings (%)[6] (as of 03/31/18)

Holding	% of Net Assets
Darling Ingredients Inc	5.93
Bakkafrost P/F	5.57
Clean Harbors Inc	5.21
Newfield Exploration Co	5.14
Centene Corp	5.09
SKF AB, Class B	4.98
Brink's Co	4.89
Western Union Co	4.76
Bangkok Bank PCL	4.48
Polaris Industries Inc	4.35
TOTAL %	50.40

Disclosure

Investors should carefully consider the fund's investment objectives, risks, charges and expenses before investing. For this and other information, please call 800.835.3879 or download a free prospectus. Read it carefully before investing or sending money.

Past performance is no guarantee of future results.

Investments in international securities are subject to certain risks of overseas investing including currency fluctuations and changes in political and economic conditions, which could result in significant market fluctuations.

The Fund is subject to the risks associated with investments in emerging markets, such as erratic earnings patterns, economic and political instability, changing exchange controls, limitations on repatriation of foreign capital and changes in local governmental attitudes toward private investment, possibly leading to nationalization or confiscation of investor assets.

The Fund is subject to risks associated with investments in small-capitalization companies, such as erratic earnings patterns, competitive conditions, limited earnings history and a reliance on one or a limited number of products.

The Fund is subject to risks associated with investments in mid-capitalization companies such as greater price volatility, lower trading volume and less liquidity than the stocks of larger, more established companies.

The Fund is subject to currency risk resulting from fluctuations in exchange rates that may affect the total loss or gain on a non-U.S. Dollar investment when converted back to U.S. Dollars.

The Fund may invest in derivatives such as options and futures; the complexity and rapidly changing structure of derivatives markets may increase the possibility of market losses.

A greater percentage of the Fund's holdings may be focused in a smaller number of securities, which may place the Fund at greater risk than a more diversified fund.

Companies that are in similar businesses may be similarly affected by particular economic or market events; to the extent the Fund has substantial holdings within a particular sector, the risks associated with that sector increase.

The Fund invests in value stocks, which may perform differently from the market as a whole and may be undervalued by the market for a long period of time.

A short-term redemption fee of 2% will be charged on redemptions of Fund shares held for less than 60 days.

Any sectors, industries, or securities discussed should not be perceived as investment recommendations. Any securities discussed may no longer be held in the Fund's portfolio. It should not be assumed that any of the securities transactions discussed were or will prove to be profitable, or that the investment recommendations we make in the future will be profitable.

The MSCI All Country World Index (ACWI) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 46 country indices comprising 23 developed and 23 emerging market country indices.

The MSCI ACWI SMID Cap Index is a free float-adjusted market capitalization weighted index that is designed to measure the mid and small capitalization equity market performance of developed and emerging markets. Please go to msci.com for the most current list of countries represented by the MSCI indices.

Unlike the Fund, the Indices are unmanaged, are not available for investment and do not incur expenses.

AMG Funds are distributed by AMG Distributors, Inc., member FINRA/SIPC.

[6] Mention of a specific security should not be considered a recommendation to buy or a solicitation to sell that security. Holdings are subject to change.