# 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 09/30/18)

| | QTD | YTD | 1 yr | 3 yr | 5 yr | Since Incpt.[2] |
|---|---|---|---|---|---|---|
| SSOVX (Class N) | 2.45 | 3.58 | 5.24 | – | – | 9.48 |
| SSOLX (Class I) | 2.51 | 3.91 | 5.65 | – | – | 9.84 |
| MSCI All Country World Index | 4.28 | 3.83 | 9.77 | 13.40 | 8.67 | 14.55 |
| MSCI All Country World Index SMID Cap | 1.73 | 2.29 | 8.25 | 13.06 | 8.46 | 14.02 |

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 2.45% for the third quarter of 2018, compared with 4.28% for its primary benchmark, the MSCI All Country World Index. For the 12 months ending September 30, 2018, the Fund returned 5.24%, while the primary benchmark returned 8.25%. Please note that this Fund has multiple share classes.

At SouthernSun, August and September have been relatively heavy research travel months for the investment team throughout the nearly 30-year history of the firm. We believe that, in many ways, it is the best time to talk to management teams and to tour plants and facilities. Most companies are moving into their strategic planning period for the coming year; the budget has not been set, generally, and neither have marketing ideas, offering us an opportune time to interview management as it considers the direction of a company for the coming year. In recent weeks we have, once again, taken advantage of these opportunities and visited many of our portfolio companies in the U.S., in Europe, and in South America.

We are pleased with the learnings from the field research we conducted during the period as we met with executive and operational management, at company headquarters, at manufacturing facilities, and at research and development centers. These meetings featured discussions of new products, manufacturing efficiencies, supply chain management, distribution, organic growth, and pricing power. We noted several companies expanding manufacturing capacity, demonstrating more effective utilization of existing capacity, and providing plausible explanations for managing costs related to recently implemented steel and aluminum tariffs. We contend that the capable management teams of our portfolio holdings are utilizing consistent cash flows and flexible balance sheets to increase the competitive advantages of their businesses. We remain benchmark agnostic in our investment approach as we seek to identify companies that are poised to create long-term value for shareholders—and have not yet been recognized by the broader market.

**The Brink's Company (BCO)**, a global provider of logistics and security services for the transport of cash and other valuables, was the leading detractor from performance on an absolute basis in the period. **BCO** remains one of our highest conviction portfolio holdings. The company's customers include banks and other financial institutions, retailers, jewelers, and government agencies. In 2016, **BCO** derived approximately 75% of its revenue outside of the U.S. with France, Mexico, and Brazil generating substantial revenue. Competitors include G4S plc, Loomis AB, and Prosegur. In our view, the company is in the midst of a turnaround and management is building credibility with us and with other investors. **BCO** replaced its management team in 2016, and we have met with the new executives several times to discuss their strategy. We believe that the new leadership has taken decisive actions—including assigning senior executives to oversee turnarounds in specific regions, rebuilding the salesforce and calling on major customers, and identifying global margin improvement opportunities. **BCO** closed the acquisition of Dunbar Armored, Inc., during the period, making it the largest cash management company in the U.S. We believe that Dunbar brings strength in retail customers, information technology, logistics, and management to this union, and also synergies that management believes could roughly double Dunbar's contribution to **BCO**'s operating income. Further, management has issued guidance indicating an acceleration in cash flow growth over the next two to three years. We contend that the company continues to develop processes enabling its customers to handle cash less frequently and that allow it to process cash more efficiently.

**Polaris Industries, Inc. (PII)** was another leading detractor from performance on an absolute basis in the period. **PII** designs, engineers, manufactures, and markets snowmobiles, off-road vehicles ("ORV"), motorcycles, and other small vehicles in the United States, Canada, and Western Europe. We believe that the company continues to build on a track record of innovation and market leadership. **PII** currently maintains

[1] Returns for periods less than one year are not annualized.
[2] Since the inception of the Fund on July 11, 2016.
[3] 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

a market share in ORVs of more than twice its nearest competitor, has roughly doubled the number of engineers at its primary research and development facility over the last three years, and we assert that management is on track to achieve its long-term growth and profit improvement goals through organic growth and acquisitions. We contend that the company's historic emphasis on research, development, and innovation remains a factor that differentiates **PII** competitively. Over the last two years, the company has acquired Transamerican Parts, an aftermarket parts business, and Boat Holdings, LLC, a leading manufacturer of pontoon boats in the U.S. We continue to monitor these additions to the **PII** portfolio.

**Clean Harbors, Inc. (CLH)**, a leading provider of environmental, energy, and industrial services throughout North America, was the leading contributor to performance on an absolute basis in the period. Its portfolio includes business supported by federal, state, and local environmental regulations with high barriers to entry, including hazardous materials cleanup and incinerating, industrial parts washing, and the recycling of motor oils into high-quality base and blended lubricating oils. **CLH** enjoys longstanding relationships with customers ranging from Fortune 500 companies to small privately held entities in industries including oil and gas, chemicals, and refining. We believe that its business is driven, in part, by increased environmental regulation in the U.S. and Canada. The company is led by its founder, and we contend that he is supported by an experienced senior management team. In recent years **CLH** has executed on a $200 million cost reduction plan, brought an incinerator on line, and incubated an oils re-refining business. **CLH** has reported growth in industrial waste volumes consistently over the past year, raised guidance during the period, continues to record profitable growth in Safety Kleen (its largest business unit), and refinanced a portion of its debt recently.

**Centene Corp. (CNC)**, a multi-line managed care organization providing Medicaid and other related services through government subsidized programs, was another leading contributor to performance on an absolute basis in the period. The company's record of growth includes moving from managing healthcare programs for nine states in 2011 to 29 states in 2018, including the big four: California, Texas, Florida, and New York. We contend that **CNC** continued to generate consistent levels of discretionary cash flow during the last year and that the stock is valued attractively versus those cash flows. We believe that the 2015 HealthNet acquisition provided **CNC** entry to the large and potentially lucrative California market and adds to its competencies in non-Medicaid programs, where existing customers have expressed further interest in its capabilities. Additionally, we assert that **CNC**'s investments in people and technology have contributed positively to its growth and the execution of its strategy, and have driven lower costs through more preventative care and less expensive outcomes. During 2018, the company closed the acquisition of Fidelis Care. We believe that this deal is attractive because it is accretive to earnings from the outset, it adds to **CNC**'s scale, and it provides it entry to New York State, the country's second leading Medicaid market. During the period, the company announced several other acquisitions and partnerships which we assert contribute further to its scale, consolidation, and value creation. We contend that **CNC** continues to capitalize on existing opportunities in Medicaid and Medicare management for state governments while exploring relationship extensions in areas such as the delivery of healthcare solutions to corrections facilities. We believe that **CNC** has strong prospects for growth over the long term and that it provides high quality, affordable solutions to its customers in the healthcare sector.

Our research effort continues to focus on a bottom up analysis of the companies in the Fund. We contend that the Fund's portfolio companies trade at attractive valuations in the marketplace and are led by capable management teams with clear plans to grow shareholder value through improved financial and operational performance. We believe that we distinguish ourselves by spending more time in the field observing management, plants, and facilities than we do at our desks with eyes trained on computer screens. New ideas often come from places where the herd spends little time, including factory tours, trade journals, trade shows, proxy statements, and a thorough review of the customers, suppliers, and competitors of the businesses we already own. We assert that this effort has been consistent over time, that it gives us a distinct understanding of these businesses, and we look forward to both its continued practice and to reporting its outcome to our investors.

*The views expressed represent the opinions of SouthernSun Asset Management, LLC as of September 30, 2018, are not intended as a forecast or guarantee of future results, and are subject to change without notice.*

Top Ten Holdings (%)[4] (as of 06/30/18)

| Holding | % of Net Assets |
|---|---|
| Darling Ingredients Inc | 6.41 |
| Newfield Exploration Co | 5.95 |
| Brink's Co | 5.89 |
| Clean Harbors Inc | 5.87 |
| Bakkafrost P/F | 5.78 |
| Centene Corp | 5.71 |
| Western Union Co | 4.96 |
| Extended Stay America Inc | 4.22 |
| Polaris Industries Inc | 4.13 |
| De'Longhi SpA | 4.05 |
| TOTAL % | 52.97 |

[4] 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.

## 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 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 most current list of countries.

Unlike the Fund, the Index is unmanaged, is not available for investment and does not incur expenses.

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