Q3 | 2017 AMG SouthernSun Small Cap Fund

COMMENTARY

ASSET CLASS | SMALL CAP

Class N | SSSFX   Class I | SSSIX

SOUTHERNSUN ASSET MANAGEMENT

Average Annual Returns (%)[1,2,3] (as of 09/30/17)

	QTD	YTD	1 yr	3 yr	5 yr	10 yr	Since Incpt.
SSSFX (Class N)	6.00	16.80	21.88	3.73	11.37	9.42	11.16[4]
SSSIX (Class I)	6.04	17.05	22.19	3.99	11.65	–	15.69[5]
Russell 2000® Index	5.67	10.94	20.74	12.18	13.79	7.85	9.55[4]
MSCI USA Small Cap Index	5.43	11.49	19.08	10.86	14.00	8.61	9.98[4]

SSSFX (Class N) Expense Ratio (Gross/Net): 1.22%/1.22%
SSSIX (Class I) Expense Ratio (Gross/Net): 0.97%/0.97%

The performance data shown represents past performance. Past performance is no guarantee of future results. Current performance may be lower or higher than the 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 Small Cap Fund** (Class N) returned 6.00% for the third quarter of 2017, compared with 5.67% for its primary benchmark, the Russell 2000® Index. For the 12 months ending September 30, 2017, the Fund returned 21.88%, while the benchmark returned 20.74%. Please note that this Fund has multiple share classes.

Management assessments of existing and prospective holdings remain a key component of SouthernSun's investment process. This part of our research extends from the board room to the break room, and we find discussions with plant and operational management revealing and as significant as those in which we engage with senior management of a company. We attempt to determine whether a management team is "rightly fitted" for the current challenges and opportunities facing a company, whether financial, operational or customer-related. Many of the Fund holdings' management teams have remained in place for more than ten years, although we certainly see and analyze turnover when it occurs. We continually evaluate the capital allocation decisions that the portfolio holdings' managers make in acquisitions, share buybacks, debt retirement, dividend increases and capital expenditures. As value-oriented investors, we often find companies trading at attractive cash flow yields that are managing through a turnaround or what we believe is a temporary setback in their business. We value management teams with experience and capabilities in these transitions.

During the period, we participated in a greater than usual number of meetings with the management teams of existing and prospective holdings at their headquarters and facilities, at conferences, and in our Memphis office. The content of these meetings reinforced to us the value of knowing these companies and their leaders over an extended period of time. Topics discussed included capital allocation, product development, the competitive landscape, operational initiatives and improvements, and the importance of having the right leadership in place. We contend that these meetings produce conversations and cover topics often not found in regulatory filings or in company marketing materials, and the content they generate better informs our research process and ability to judge the quality of the investments in the long term.

Stock selection within and an overweight to the producer durables sector, and stock selection in the consumer staples sectors, led by The Brink's Company (BCO) and Sanderson Farms, Inc. (SAFM), respectively, drove most of the outperformance during the period. This was offset, in part, by stock selection in the health care and technology sectors where Envision Healthcare Corp. (EVHC) and Diebold Nixdorf, Inc. (DBD) were leading detractors from performance, respectively.

Sanderson Farms, Inc. (SAFM), the leading contributor to performance on a relative basis in the period, is the #3 chicken processor in the United States with roughly 8% market share. SAFM maintains a debt-free balance sheet, which we believe gives it an advantage versus heavily levered competitors such as Tyson, Pilgrim's Pride and Perdue. Its management team has run the company for well over a decade, and we believe that it continues to allocate capital wisely. SAFM is the only chicken processor to have added capacity in the last seven years. These additions have occurred in the Texas and North Carolina markets which we believe currently possess attractive growth characteristics. SAFM sells chicken into the more lucrative supermarket and casual dining channels, avoiding more commoditized fast food customers. We believe that its operations from feed to slaughter make SAFM the most efficient among its competitors at turning grains into protein. Additionally, we believe that low grain prices continue to support attractive gross margins and that low oil prices may have translated into increased customer traffic at U.S. restaurants. SAFM released earnings during the period and the market responded positively to the report, which included news regarding pricing improvements, capacity expansion, cost containment and a positive outlook on its margin profile. We also assert that the company's

[1] Returns for periods less than one year are not annualized.
[2] The performance information shown for periods prior to March 31, 2014 is that of the predecessor to the Fund, SouthernSun Small Cap Fund, a series of Northern Lights Fund Trust, which was reorganized into the Fund on March 31, 2014, and was managed by SouthernSun Asset Management, LLC with the same investment objective and substantially similar investment policies as those of the Fund.
[3] Prior to October 1, 2016, the Fund's N and I shares were known as Investor and Institutional shares, respectively.
[4] Since the inception of the Fund's Class N shares on October 1, 2003.
[5] Since the inception of the Fund's Class I shares on September 30, 2009.

comments regarding the millennials maintaining a healthier diet than their parents bodes well for chicken demand, going forward.

The Brink's Company (BCO), a global provider of logistics and security services for the transport of cash and other valuables, was another leading contributor to performance on a relative basis in the period. 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. Recent challenges include slow organic growth, foreign exchange movements and competitive pressure in the form of personnel deployment, operational efficiencies and capital allocation. In our view, the company is in the midst of a turnaround. BCO replaced its management team in 2016 and we have met with the new executives to discuss their strategy. We believe that the new leadership is taking decisive actions—including assigning senior executives to oversee turnarounds in specific global regions, rebuilding the salesforce and calling on major customers, and identifying global margin improvement opportunities. We maintain conviction in this holding and will continue to assess new management and monitor the progress of these turnaround initiatives going forward.

Envision Healthcare Corp. (EVHC), a leader in the consolidation of ambulatory surgical centers (ASC) and physician practice services (PPS), was the leading detractor from performance on a relative basis in the period. The company was formed from the 2016 merger of EVHC and AmSurg Corp. Its specialties include ophthalmology and orthopedics in its ASC division and radiology, anesthesiology, and emergency medicine in the PPS division. The company has a history of acquisitions in both the PPS and ASC spaces and has identified PPS as an area with future consolidation opportunities. EVHC believes that the PPS model provides hospitals the ability to outsource a significant cost center so that they can focus their attention on profit centers while enabling physicians to focus on providing medical care and not managing the business elements of their practices. We believe that the company has scale, a flexible cost structure and a technology backbone which provides streamlined back office management, robust billing and collections capabilities, and enables efficient integration of acquisitions. We met with management during the period and discussed the continued integration of the new company, specifically regarding synergies and corporate culture. The discussion also focused on the balance sheet and EVHC's views on capital allocation. We continue to believe that this is a less cyclical business, with manageable risks and the potential to better demonstrate its value proposition to the broader investment community once the moving parts surrounding the merger settle down.

Diebold Nixdorf, Inc. (DBD), a leading global provider of hardware, software and related services to the banking and retail industries, was another leading detractor from performance on a relative basis in the period. The company manufactures and services automated teller machines (ATM) for banks and point-of-sale systems for retail. We believe that DBD has been a leader in ATM market share in the U.S. and South America and that its 2016 acquisition of Wincor Nixdorf introduced a leadership position in Europe. Its revenue breakdown is approximately 50% servicing, 40% manufacturing and 10% software with roughly 75% from the banking channel and 25% from retail. Approximately 67% of its revenue comes from outside the Americas. We like the recurring revenue aspect of the servicing business where DBD possesses the capability to service ATMs manufactured by its competitors. We contend that its management team has significant experience in technology and financial services and has appropriately sized the business through technology implementation and staffing various functions within the business. During the period, we met with DBD executives and our discussion included the continued integration of the Wincor Nixdorf acquisition, capital allocation, working capital management and the importance of personal service in this business. We remain confident in the company's ability to deliver leading solutions to its banking and retail customer base.

We assert that several characteristics distinguish us in the marketplace—including consistent onsite assessments of operational management, our long-term perspective and the duration of ownership, and the significant stakes that we take in many of the Fund's portfolio holdings. We assert that each of these reflects the importance of meeting with management teams on a regular basis and using these meetings to continually inform and enhance our investment theses. Time spent with executive and operational management at our businesses has been a hallmark of our investment process and we look forward to its continued role in our research and to reporting on what it reveals in this forum.

The views expressed represent the opinions of SouthernSun Asset Management, LLC as of September 30, 2017, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

Top Ten Holdings (%)[6] (as of 06/30/17)

Holding	% of Net Assets
Darling Ingredients Inc	5.85
Hill-Rom Holdings Inc	5.37
Centene Corp	5.25
Envision Healthcare Corp	5.23
Brink's Co	5.05
Diebold Inc	5.04
Clean Harbors Inc	5.00
Murphy USA Inc	4.96
Polaris Industries Inc	4.80
Timken Co	4.79
TOTAL %	51.34

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.

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

The Fund is non-diversified and therefore a greater percentage of holdings may be concentrated in a small number of issuers or a single issuer, which can place the Fund at greater risk.

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. Value stocks may underperform growth stocks during given periods.

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 Russell 2000® Index is composed of the 2000 smallest stocks in the Russell 3000® Index and is widely regarded in the industry as the premier measure of small-cap stock performance.

The MSCI USA Small Cap Index is designed to measure the performance of the small cap segment of the U.S. equity market.

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.