AMG SouthernSun U.S. Equity Fund

COMMENTARY

ASSET CLASS | SMALL/MID CAP

Class N | SSEFX   Class C | SSECX   Class I | SSEIX

SouthernSun ASSET MANAGEMENT

Average Annual Returns (%)[1,2] (as of 12/31/17)

	QTD	YTD	1 yr	3 yr	5 yr	Since Incpt.[3]
SSEFX (Class N)	1.79	10.41	10.41	4.63	9.59	9.79
SSECX (Class C)	1.62	9.57	9.57	3.86	8.77	9.01
SSEIX (Class I)	1.82	10.67	10.67	4.88	9.85	10.06
Russell 2500™ Index	5.24	16.81	16.81	10.07	14.33	14.24
Russell Midcap® Index	6.07	18.52	18.52	9.58	14.96	14.54

SSEFX (Class N) Expense Ratio (Gross/Net): 1.21%/1.21%
SSECX (Class C) Expense Ratio (Gross/Net): 1.96%/1.96%
SSEIX (Class I) Expense Ratio (Gross/Net): 0.96%/0.96%

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 U.S. Equity Fund** (Class N) returned 1.79% for the fourth quarter of 2017, compared with 5.24% for its primary benchmark, the Russell 2500® Index. For the 12 months ending December 31, 2017, the Fund returned 10.41%, while the benchmark returned 16.81%. Please note that this Fund has multiple share classes.

While there is nothing magical about the end of the calendar year, it can offer a time for reflection on the events of the previous twelve months. In 2017, the U.S. equity markets continued their march upward led, in part, by outperformance in the technology sector. We continued to engage regularly with our portfolio companies and our observations have led to favorable outlooks for several of our industrial businesses. We have observed customer-led innovation, technology and innovation applied in businesses that have traditionally resisted it, and what should be improving conditions for reinvestment by industrial-related businesses, driven largely by tax reform and accelerated depreciation. We have also noted the organic growth that several of our companies have reported recently, and assert that they are reporting organic growth with both consistency and frequency not seen in our portfolio in several years. Additionally, improving global purchasing manager index metrics and an increase in industrial landfill volumes may bode well for activity at these businesses.

We are pleased with the current positioning of the Fund. Our largest allocation remains in the producer durables sector and we believe that we have emerged from the industrial recession that commenced in late 2014 with the collapse in oil prices and other commodities. We contend that our businesses' financial strength allowed many of them to allocate capital during the trough of their business cycle and that they are now poised to reap the benefits of those investments. We look to construct portfolios of businesses that possess scale, drive consolidation and demonstrate pricing power and believe that the combination of these characteristics along with an industrial recovery positions the Fund to perform well in the coming year. We believe the new names that we have added recently bring with them proven capabilities in areas such as distribution and brand strength that strengthen the Fund further.

Stock selection in the health care and technology sectors led by Envision Healthcare Corp. (EVHC) and Diebold Nixdorf, Inc. (DBD), respectively, drove most of the underperformance during the period. This was offset, in part, by an underweight allocation to the financial services sector and an overweight allocation to the consumer discretionary sector.

Envision Healthcare Corp. (EVHC), a leader in the consolidation of ambulatory surgical centers (ASG) 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. with specialties including ophthalmology and orthopedics in its ASC division and radiology, anesthesiology and emergency medicine in the PPS division. During the period, the company reported third quarter earnings that missed estimates and lowered fourth quarter guidance significantly; the stock responded negatively to the news. We sold our position in EVHC in November 2017 due primarily to a loss of confidence in management, and turnover in their leadership team. In addition, we believe that we have more compelling opportunities in existing names and within our pipeline of potential investments.

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. DBD has been a leader in ATM market share in the U.S. and South America and we believe 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

[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 U.S. Equity 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] Since the inception of the Fund's share classes on April 10, 2012.

revenue comes from outside the Americas. We like the recurring revenue aspect of the servicing business where DBD possesses the capability to services 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. Members of our investment team visited a German facility that was part of the Wincor Nixdorf acquisition during the period and left impressed with the quality of operations and the caliber of management.

Polaris Industries, Inc. (PII) was the leading contributor to performance on a relative 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 PII continues to build on a track record of innovation and market leadership and has demonstrated acumen in capital allocation. PII currently maintains a market share in the ORV market of more than twice its nearest competitor, and we believe that the company is on track to achieve its long-term growth and profit improvement goals through organic growth and acquisitions. We remain confident in senior management and believe that the company's historic emphasis on research, development and innovation remains a factor that differentiates PII competitively. The positive stock price performance in the period coincided with a quarterly earnings release which reported double-digit sales growth, market share gains in ORV, and growth in Indian motorcycle sales against the backdrop of weak industry numbers and the continued integration of the Transamerican Parts acquisition. We maintained our position in the stock.

Trinity Industries, Inc. (TRN), a diversified industrial company engaged in the manufacture of rail cars, highway safety products, inland barges, wind towers and the leasing of rail cars, was another leading contributor to performance on a relative basis in the period. TRN is a leader in North American rail car production with the ability to shift production between multiple rail car types. We believe that its management team has allocated capital prudently in varying market conditions. In the last year, TRN has faced challenges related to general weakness in rail car demand and we believe that it has responded adequately by right-sizing its business, managing its rail car lease fleet and by maintaining liquidity that we contend could be an asset in a continued cyclical trough or should attractive capital allocation opportunities present themselves. We remain impressed with TRN's ability to generate higher peak and trough earnings relative to previous cycles and contend that this indicates solid financial footing, an improved competitive position and prudent long-term capital allocation. We like what we assert is TRN's continued discipline regarding the valuation of acquisition opportunities and were encouraged by a favorable federal appeals court ruling in late September 2017 involving its highway safety products segment.

While we have paused recently to reflect on the past, we remain excited about the future at SouthernSun. The majority of our investment team has worked together for close to a decade and we believe that this tenure leads to increased collaboration as we manage portfolios and search for new investment ideas. The signs that we have noted of an industrial recovery may provide a tailwind for a fund that has maintained historical overweight allocations to the producer durables sector. We contend that management teams, whether new or tenured, are rightly fitted and meeting the challenges and opportunities facing their businesses. We are also pleased that the intersection of our research and individual company valuations has provided new investment opportunities.

The views expressed represent the opinions of SouthernSun Asset Management, LLC as of December 31, 2017, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

Top Ten Holdings (%)[4] (as of 09/30/17)

Holding	% of Net Assets
Darling Ingredients Inc	6.17
Centene Corp	5.75
Clean Harbors Inc	5.50
Hanesbrands Inc	5.25
Polaris Industries Inc	5.19
Timken Co	5.17
Trinity Industries Inc	5.11
Western Union Co	5.10
Newfield Exploration Co	4.97
OGE Energy Corp	4.80
TOTAL %	53.01

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.

The Fund is subject to risks associated with the stocks of small- and mid-capitalization companies. The stocks of small- and mid-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

[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.

period of time. Value stocks may underperform growth stocks during given periods.

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.

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 2500™ Index measures the performance of the small- to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. It includes approximately 2,500 of the smallest companies in the Russell 3000® Index.

The Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000® Index, which represent approximately 25 percent of the total market capitalization of the Russell 1000® Index.

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

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