# Q1 | 2018 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 03/31/18)

| | QTD | YTD | 1 yr | 3 yr | 5 yr | Since Incpt.[3] |
|---|---|---|---|---|---|---|
| SSEFX (Class N) | -4.67 | -4.67 | 1.73 | 1.01 | 6.07 | 8.50 |
| SSECX (Class C) | -4.91 | -4.91 | 0.92 | 0.22 | 5.27 | 7.71 |
| SSEIX (Class I) | -4.60 | -4.60 | 1.97 | 1.26 | 6.33 | 8.77 |
| Russell 2500® Index | -0.24 | -0.24 | 12.31 | 8.15 | 11.55 | 13.56 |
| Russell Midcap® Index | -0.46 | -0.46 | 12.20 | 8.01 | 12.09 | 13.81 |

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 -4.67% for the first quarter of 2018, compared with -0.24% for its primary benchmark, the Russell 2500® Index. For the 12 months ending March 31, 2018, the Fund returned 1.73%, while the primary benchmark returned 12.31%. 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 of 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 IDEX Corp. (IEX), Knowles Corp. (KN) and several other holdings, as well as visits to our office by Newfield Exploration Company (NFX), Timken Company (TKR) and Broadridge Financial Services, Inc. (BR). Flowserve Corp. (FLS) continues to report progress on the technology and operational initiatives of its Flowserve 2.0 restructuring 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. Thor Industries, Inc. (THO), which has operated historically with a debt-free balance sheet, has announced a $40 million manufacturing capacity addition at its flagship Airstream brand during a period when it has consolidated market share and when we believe that a new generation of recreational vehicle enthusiasts is purchasing its products. 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 our other portfolio holdings have continued to allocate capital in smaller increments to bolt-on acquisitions that complement their ongoing operations, notably TKR which has made several acquisitions of product lines along the drive train in the last two years that we believe cleared financial hurdles for accretion, internal rates of return and returns on invested capital.

The Fund struggled from a sector positioning perspective during the period. Our long-term underweights to health care and technology, sector leaders within the Russell 2500®, hurt performance significantly. Our overweight to producer durables also detracted. Additionally, stock selection in the producer durables and consumer discretionary sectors led by Trinity Industries, Inc. (TRN) and Thor Industries, Inc. (THO), respectively, drove most of the underperformance during the period. This was offset, in part, by stock selection in the financial services and materials and processing sectors, led by Broadridge Financial Services, Inc. (BR) and WestRock Corp. (WRK), 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[4] plays of the Anadarko Basin in the Mid-Continent region. We

[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.

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

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 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.

Thor Industries, Inc. (THO), another leading detractor from performance on a relative basis in the period, is currently a market share leader in the U.S. recreational vehicle (RV) industry with roughly 50% share in towable RVs and 35% share in motor homes. We believe that its flexible manufacturing model and commitment to maintaining a de-levered balance sheet have contributed to its generation of cash flow and positive earnings every year since its founding in 1980 and to its ability to allocate capital through a range of economic conditions during that time. Recently, THO announced the funding of additional manufacturing capacity which we believe reflects its leading market position, customer demand and its ability to consolidate market share. We contend that RV demand remains consistent and that the company is diligent at tracking dealer inventory levels. We believe that attractive demographics and elevated consumer confidence may increase demand for recreational vehicles and that towable RVs' lower price point may sustain demand in economic downturns and periods of higher energy prices. In our opinion, THO's balance sheet should also enable the business to withstand adverse conditions better than competitors, many of whom lack the same financial flexibility. We are also pleased that recent U.S. federal tax legislation should reduce the company's tax rate from in excess of 30% to an estimated 24%.

Broadridge Financial Solutions, Inc. (BR) was the leading contributor to performance on a relative basis in the period. It is a leading global provider of investor communications and technology-driven solutions to banks, broker-dealers, mutual funds and corporate issuers. BR is the former brokerage services division of ADP, LLC, was spun out in 2007, and since then has grown primarily through internal technological advances and select tuck-in acquisitions, distinguishing it further from its competitors. BR's cash flow generation has proven consistent over time. Its customers are primarily U.S. financial services companies and it enjoys market share exceeding 70% in both the U.S. and Europe. BR continues to target accretive acquisitions, with a clear strategic fit and a compelling growth profile. Its cash flows have been consistent enough to support this growth as well as regular dividend increases over time. We believe that recent results have been driven, in part, by event-driven activity, cost management, and favorable foreign currency movements. Our recent discussions with management have covered opportunities in wealth management and the potential to capitalize on the movement of technology and operations from banks and brokerages to third-party providers. We believe that key hires may further support the extension of relationships with certain key customers.

Centene Corporation (CNC), a multi-line managed care organization providing Medicaid and other related services through government subsidized programs, was another leading contributor to performance on a relative basis in the period. The company's record of growth includes moving from managing health care 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, the execution of its strategy, and driven lower costs through more preventative care and less expensive outcomes. During 2017, the company announced 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 provides it entry to New York State, the country's second leading Medicaid market. We believe this transaction will close during the second quarter of 2018. 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 health care 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 health care sector.

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.*

Top Ten Holdings (%)[5] (as of 03/31/18)

| Holding | % of Net Assets |
|---|---|
| Darling Ingredients Inc | 6.41 |
| Clean Harbors Inc | 5.44 |
| Centene Corp | 5.43 |
| Trinity Industries Inc | 5.37 |
| Timken Co | 5.33 |
| Newfield Exploration Co | 5.08 |
| Murphy USA Inc | 5.03 |
| Polaris Industries Inc | 4.90 |
| Western Union Co | 4.84 |
| Hanesbrands Inc | 4.75 |
| TOTAL % | 52.58 |

## 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.*

Accretion is asset and earnings growth due to business expansion, and it can occur through a company's internal growth or through mergers and acquisitions.

Return on invested capital is a measure of assessing a company's efficiency at allocating the capital under its control to profitable investments.

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 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% 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.

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

[5] 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.