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

	QTD	YTD	1 yr	3 yr	5 yr	Since Incpt.[4]
SSEFX (Class N)	3.45	8.47	11.71	2.83	10.70	9.91
SSECX (Class C)	3.26	7.83	10.90	2.07	9.86	9.13
SSEIX (Class I)	3.51	8.69	12.02	3.10	10.96	10.19
Russell 2500™ Index	4.74	11.00	17.79	10.60	13.86	13.87
Russell Midcap® Index	3.47	11.74	15.32	9.54	14.26	14.02

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 3.45% for the third quarter of 2017, compared with 4.74% for its primary benchmark, the Russell 2500™ Index. For the 12 months ending September 30, 2017, the Fund returned 11.71%, while the benchmark returned 17.79%. 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 in the health care and technology sectors led by Envision Healthcare Corp. (EVHC) and Knowles Corp. (KN), respectively, drove most of the underperformance in the period. This was offset, in part, by stock selection in the consumer discretionary sector led by Thor Industries, Inc. (THO) and an underweight allocation to the financial services sector.

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, 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

[1] Returns for periods greater than one year are 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] 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 share classes on April 10, 2012.

proposition to the broader investment community once the moving parts surrounding the merger settle down.

Murphy USA, Inc. (MUSA), a low-price, high volume operator of filling stations and small-format convenience stores located largely on MUSA-owned land in front of Wal-Mart supercenters in the South and the Midwest, was another leading detractor from performance on a relative basis in the period. The company typically sells 3-4 times the fuel volumes of its competitors that include MAPCO, the retail divisions of integrated energy companies, regional chains and jobbers. MUSA operates roughly 1,200 stores in its current footprint, with another 1,200 potential locations in that footprint and 800 potential locations in other regions of the U.S. It maintains a conservatively levered balance sheet and has developed a track record of reinvesting in its business in new stores that generate returns on invested capital (ROIC) in excess of 10% and remodeling existing locations. MUSA also generates supplemental income through the sale of Renewable Identification Numbers (RINs), environmental credits that it generates in the logistics portion of its business and then sells to companies in other portions of the energy industry. Its CEO spent nearly two decades in Booz, Inc.'s energy practice. The CEO and the board put a tremendous focus on MUSA's return on invested capital. We believe that MUSA repurchased shares in recent months at attractive prices and that its plans to build new stores and to raze and rebuild stores at current locations demonstrate continued superior capital allocation. Management's recent comments regarding customer demographics and spending habits as well as its assessment of the competitive landscape suggest to us an effort to continually improve its knowledge in these areas of the business. The company has continued to generate positive financial results and we believe is taking steps to improve its inventory of prospective new locations.

Centene Corporation (CNC), a multi-line managed care organization providing Medicaid and other related services through government subsidized programs, was the leading contributor to performance on a relative basis in the period. CNC closed its acquisition of HealthNet in 2016 and the stock responded positively. We contend that the company 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 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. We believe that the headline risk surrounding the Affordable Care Act (ACA) provided a short-term headwind to the stock price. Our analysis indicates that approximately 10%-15% of CNC's revenue is tied to the ACA, the repeal and replacement of which failed in the U.S. Congress earlier this year. During the period, 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 the company's scale and it provides entry to New York State, the country's second leading Medicaid market. 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 affordable solutions of high quality to its customers in the health care sector.

Thor Industries, Inc. (THO), a leading manufacturer of towable recreation vehicles (RVs) and motor homes, was another leading contributor to performance on a relative basis in the period. We remain impressed with THO's financial flexibility, specifically its capital allocation acumen which we believe is evidenced by a history of acquisitions and divestitures and a lean organization that employs flexible manufacturing and is responsive to changes in consumer preferences and encourages competition between business units. We contend that attractive demographics and elevated consumer confidence should 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. In 2016, THO announced the acquisition of Jayco Corp. for $576 million in cash. We believe that this news, record net income, positive news regarding backlog, and strong recent product introductions drove the stock higher.

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 (%)[5] (as of 06/30/17)

Holding	% of Net Assets
Darling Ingredients Inc	5.84
Hanesbrands Inc	5.50
Centene Corp	5.49
Envision Healthcare Corp	5.29
Murphy USA Inc	5.20
Clean Harbors Inc	5.15
Western Union Co	5.01
Polaris Industries Inc	4.89
Timken Co	4.89
Trinity Industries Inc	4.72
TOTAL %	51.98

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 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.

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.