AMG SouthernSun U.S. Equity Fund

COMMENTARY

ASSET CLASS | SMALL/MID CAP

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

SouthernSun Asset Management

Average Annual Returns (%)[1,2] (as of 09/30/18)

	QTD	YTD	1 yr	3 yr	5 yr	Since Incpt.[3]
SSEFX (Class N)	1.05	0.42	2.22	8.59	3.83	8.68
SSEIX (Class I)	1.19	0.63	2.46	8.87	4.10	8.96
SSECX (Class C)	0.88	-0.15	1.47	7.80	3.06	7.91
Russell 2500® Index	4.70	10.41	16.19	16.13	11.37	14.23
Russell Midcap® Index	5.00	7.46	13.98	14.52	11.65	14.01

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

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 1.05% for the third quarter of 2018, compared with 4.70% for its primary benchmark, the Russell 2500® Index. For the 12 months ending September 30, 2018, the Fund returned 2.22%, while the benchmark returned 16.19%. 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.

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.

Diebold Nixdorf (DBD), a leading global provider of hardware, software, and related services to the banking and retail industries, was the leading detractor from performance on an absolute basis in the period. The company manufactures and services automated teller machines (ATMs) 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 55% servicing, 35% manufacturing, and 10% software with roughly 75% from the banking channel and 25% from retail. Approximately 67% of its revenue is generated outside the U.S. We like the recurring revenue aspect of the servicing business in which **DBD** has demonstrated the capability to service ATMs manufactured by its competitors. Recently the company has faced several challenges: increased leverage from the Wincor Nixdorf acquisition, ongoing operational challenges and delays in customer spending on ATM upgrades and implementation of the next generation of software. We are pleased with the appointment of a new CEO in early 2018 and his actions regarding restructuring, capital allocation, and customer relations. Additionally, we believe that recent statements from **DBD** regarding financing, customer demand, and cost actions reflect a growing sense of urgency and improvements in operating conditions.

The Brink's Company (BCO), a global provider of logistics and security services for the transport of cash and other valuables, was another 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

[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.

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.

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.

Flowserve Corporation (FLS), a global manufacturer and aftermarket service provider of comprehensive flow control systems, was another leading contributor to performance on an absolute basis in the period. Its customers include companies in the energy, mining, chemical, and power generation industries. On average, it generates approximately 65% of its revenue outside of the U.S., largely in Europe, Asia, the Middle East, and Africa, and its customers have sensitivity to commodity prices. **FLS** hired a new management team in 2017, replacing executives with financial backgrounds with a group of managers from the energy sector who possess operational and turnaround experience. They were charged with the integration of **FLS**'s many business units that had been acquired over time but, we contend, never integrated fully into the larger company. We believe that management has taken steps in the last year to improve internal communication and customer relationships and to better integrate the business on one information technology platform. We assert that recent results including growth in revenue and earnings, margin expansion, growth in bookings, and a steady backlog and improved working capital turns reflects the efforts of the new management team. Recently, **FLS** reaffirmed its guidance for 2018 as it continues to restructure its business, with a focus on process and culture.

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	6.22
Newfield Exploration Co	6.02
Clean Harbors Inc	5.98
Brink's Co	5.60
Centene Corp	5.46
Western Union Co	5.18
Timken Co	5.14
Trinity Industries Inc	4.97
Extended Stay America Inc	4.77
Hanesbrands Inc	4.77
TOTAL %	54.11

[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.

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.