Q3 | 2020

AMG SouthernSun U.S. Equity Fund

COMMENTARY | ASSET CLASS | SMALL/MID CAP

Class N | SSEFX   Class I | SSEIX

SouthernSun ASSET MANAGEMENT

Average Annual Returns (%)[1,2] (as of 09/30/20)

	Q3	YTD	1 yr	3 yr	5 yr	Since Incpt.[3]
SSEFX (Class N)	9.71	-10.19	1.64	-2.76	2.86	5.25
SSEIX (Class I)	9.74	-10.09	1.86	-2.53	3.12	5.51
Russell 2500® Index	5.88	-5.87	2.22	4.45	8.97	10.44
Russell 2500® Value Index	3.54	-18.39	-12.62	-2.69	4.65	7.53

SSEFX (Class N) Expense Ratio (Gross/Net): 1.25%/1.25%
SSEIX (Class I) Expense Ratio (Gross/Net): 1.00%/1.00%

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 9.71% for the third quarter of 2020, compared with 5.88% for its primary benchmark, the Russell 2500® Index. On a year-to-date basis ending September 30, 2020, the Fund returned -10.19%, while the benchmark returned -5.82%. Please note that this Fund has multiple share classes.

At the onset of this past year, we expected market volatility.

What we knew. In America, we had a presidential election year in front of us, trade tensions with China escalating, arguably stretched and aggressively levered equity markets, and increased labor market tightness creating some speculation about U.S. Federal Reserve (Fed) policy. In Britain and Europe, there was a deadline set for Brexit. Across the globe many economies were beginning to turn inward due to a combination of economic and political tensions.

Thus, last autumn, it would have been reasonable to presume that the next twelve months might well bring a meaningful increase of volatility in the marketplace.

What we did not know. Few, if any, imagined what some have framed as the overlapping pandemics of 2020. COVID-19, local versus regional politics, race relations, and mental health have all seized center stage, not only in America and the west, but across the globe.

How, then, ought we think about and respond to this convergence? Increased volatility combined with broad business uncertainty has historically produced a fertile environment for SouthernSun strategies. This time has been no different. Beginning with the uptick in volatility in late 2018 our approach has yielded increasingly attractive opportunities to buy and/or add to what we believe are outstanding businesses with prudently geared balance sheets and resilient go-to-market propositions.

Whilst aware that the events of the past six to nine months are likely to produce further known and unknown outcomes, we are confident that our portfolio companies, for the most, are well positioned to not only survive but thrive. It is fair to say that what many may believe are the lasting implications of the overlapping pandemics may well be far too short sighted. Further, we believe it is too early to properly gauge permanent cultural shifts that are likely to impact business behavior in the intermediate to long term. Some of the popular theories revolve around things like work from home and/or the permanent hollowing-out of dense urban centers. It is true that in the past such phenomena have been catalysts for major shifts in entrenched trends, and things may well play out similarly this time as well.

For now, we remain focused on the flexibility of our portfolio companies' business models to maneuver through turbulent times. When combined with forward thinking management we believe that, irrespective of the ultimate cultural, societal, and business operating outcomes of recent events, our approach to finding businesses that create excellent value over time is well tested, showing strong resilience during such moments.

[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.

In closing, and apropos of the moment, we commend Louis MacNeice's poem Snow to you for consideration:

> The room was suddenly rich and the great bay-window was
> Spawning snow and pink roses against it
> Soundlessly collateral and incompatible:
> World is suddener than we fancy it.
>
> World is crazier and more of it than we think,
> Incorrigibly plural. I peel and portion
> A tangerine and spit the pips and feel
> The drunkenness of things being various.
>
> And the fire flames with a bubbling sound for world
> Is more spiteful and gay than one supposes—
> On the tongue on the eyes on the ears in the palms of one's hands—
> There is more than glass between the snow and the huge roses.

Portfolio Update

Darling Ingredients, Inc. (DAR), a global leader in creating sustainable food, feed, and fuel ingredients from edible and inedible bio-nutrients, was the leading contributor on an absolute basis during the period. Results in the core feed, food, and fuel businesses were resilient with EBITDA (earnings before interest, taxes, depreciation, and amortization) up year over year. The renewable diesel joint venture with Valero, Diamond Green Diesel (DGD), performed well and construction on the 400-million-gallon capacity expansion project is progressing according to plan. Management expects DGD to produce 675 million gallons of renewable diesel in 2022. At projected profitability levels, the expansion would roughly double **DAR's** share of the joint venture's earnings and eclipse the EBITDA from core **DAR**. We continue to believe that DGD is a competitively advantaged low-cost producer of renewable diesel with strong long-term growth prospects.

Dycom Industries, Inc. (DY), the specialty contractor for telecommunications infrastructure, was another leading contributor on an absolute basis during the period. As previously mentioned, we believed **DY**'s margins were under temporary pressure and better contract pricing, tighter cost management, and greater productivity would eventually drive margins higher. This quarter, **DY** delivered the highest adjusted EBITDA margin of the last ten quarters, which is closer to a normalized margin profile for the business, in our opinion. Over the long term, we believe the business is capable of delivering similar profit margins with revenue growth driven by 5G backhaul deployments, fiber to the home and office, and government-sponsored rural broadband initiatives.

Crane Co. (CR), a diversified manufacturer of highly engineered industrial products, was the leading detractor on an absolute basis during the period. The company's sales were down -20% primarily due to COVID-19 related macroeconomic factors that affected demand across multiple end markets including oil & gas, aerospace, and retail. Management took quick action to cut roughly $100 million of cost for the year, while continuing to invest in new product development and long-term strategic initiatives. Although the pace of end market recovery is outside of the company's control, the strong balance sheet, solid cash flow generation, and skilled management team led by Max Mitchell give us confidence that the company will be well positioned for a market recovery.

The Brink's Co. (BCO), the global leader in total cash management, was another leading detractor on an absolute basis during the period. Revenues showed positive trends as lockdown measures began to ease and closed the month of June at 14% below prior year. The G4S acquisition is now 80% closed and cost realignments and synergies are on track. Although BCO took on additional debt for the acquisition, there are no meaningful debt maturities until 2024 and covenants seem manageable. Furthermore, management reiterated expectations of positive free cash flow in 2020 and are cautiously optimistic that 2021 EBITDA could be significantly higher if positive revenue trends continue. We spent some socially distanced time with management in Dallas in October, and we came away with increased confidence in their ability to manage through operational difficulties of the pandemic, to execute on the integration of G4S with significant synergies, and to deliver on future growth initiatives.

In the SouthernSun U.S. Equity Fund we initiated a new position in **Univar Solutions, Inc (UNVR)** during the quarter. **UNVR** is the largest chemical and ingredients distributor in the U.S. and Canada, and the second largest in the world. We like the industry because it is fragmented and ripe for consolidation, and **UNVR** has meaningful economies of scale. They have a plan for growth and for margin improvement, and we believe they are trading at an attractive valuation.

Over the next 3–12 months, we anticipate continued market volatility due to the continued effects on the economy from COVID-19 and from the U.S. election cycle. We look forward to periods of volatility because they often give us opportunities to take advantage of displacements. For example, in the first and third quarters of 2020, we were able to initiate several positions in high quality companies at attractive prices. We are likely to have additional opportunities in the coming months. In addition, we believe that there may be higher variability and dispersion between companies that are likely to not just survive in this economic environment but improve their market position versus their competitors. We believe that our portfolio has many such companies that are continuing to execute their strategy because they have the financial flexibility and the leadership capability to do so.

Value has continued to significantly underperform the core and growth benchmarks in the Small and SMID space. The SouthernSun U.S. Equity Fund has outperformed in the last two quarters as well as over the trailing twelve months versus the Russell 2500® and the Russell 2500® Value, despite these headwinds. We believe that our strategies will outperform in the long run because of the quality of the companies that we own, and because of each company's ability to grow value for shareholders over the long term.

The views expressed represent the opinions of SouthernSun Asset Management, LLC as of September 30, 2020, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

Top Ten Holdings (%)[4] (as of 09/30/20)

Holding	% of Net Assets
Darling Ingredients Inc	6.76
Dycom Industries Inc	6.02
Brink's Co	5.52
Centene Corp	5.22
Timken Co	5.21
Extended Stay America Inc	5.19
AGCO Corp	4.86
Thor Industries Inc	4.59
Crane Co	4.28
Trinity Industries Inc	4.08
TOTAL %	51.73

[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.

Market prices of investments held by the Fund may fall rapidly or unpredictably due to a variety of economic or political factors, market conditions, disasters or public health issues, or in response to events that affect particular industries or companies.

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® Value Index is an unmanaged, market-value weighted, value-oriented index comprised of small stocks that have relatively low price-to-book ratios and lower forecasted growth values.

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 2500® Value Index measures the performance of the Russell 2500® companies with lower price-to-book ratios and lower forecasted growth values.

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

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