Miller Income Fund

Getting Active, Staying Flexible, and Dialing in Misses with AT&T

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In the third quarter of 2023, Miller Income Fund I-shares returned 2.13%, outperforming the ICE BofA High Yield index's 0.54% return. Your fund's advance bucked the broader trend across securities markets, as the S&P 500 lost -3.27%, 5 basis points less than bonds' 3.22% decline over the same timeframe (measured by the AGG ETF), while the median stock in the S&P 1500 lost -4.7% during the quarter. The weakness was largely tied to rates continuing their parabolic move higher. Since bond yields bottomed in the Spring of 2020, the 10-year Treasury note's intraday low yield of 0.31% surged to end September 2023 at 4.57%, within spitting distance of the quarterly high hit just days earlier.

In January 2022, we said that supposedly "safe" government bonds were likely to prove anything but – the note "Ruminations on Returns, Rates and the World's Biggest Buyer" contended that ongoing quantitative easing from the Federal Reserve could lead to continued economic strength and inflation, making 10-year notes yielding 1.74% a particularly unattractive risk-reward proposition, even after their already poor performance. Since that time, 7- to 10-year Treasury notes are off over 16% as of this writing, a supposedly "three-standard-deviation move" for practitioners of mean-variance portfolio optimization, something that should happen less than 0.3% of the time. All of this speaks to the idiocy of using

Average Annual Total Returns and Expenses (%) as of 9/30/23

	Without Sales Charges					With Maximum Sales Charges					Expenses[3]		30-Day SEC Yield	
	QTD	1 Yr	3 Yr	5 Yr	Inception[2]	QTD	1 Yr	3 Yr	5 Yr	Inception[2]	Gross	Net	with Waiver	w/o Waiver
Class A (LMCJX)	2.08	14.15	6.53	0.24	2.45	-3.76	7.55	4.44	-0.94	1.82	1.26	1.21	5.93	5.78
Class C (LCMNX)	1.88	13.24	5.70	-0.52	1.70	0.88	12.24	5.70	-0.52	1.70	2.00	1.95	5.50	5.35
Class FI (LMCKX)	2.07	14.07	6.48	0.28	2.43	2.07	14.07	6.48	0.28	2.43	1.28	1.24	6.21	6.02
Class I (LMCLX)	2.13	14.45	6.81	0.51	2.72	2.13	14.45	6.81	0.51	2.72	1.00	0.96	6.55	6.31
Class IS (LMCMX)	2.17	14.37	6.84	0.56	2.79	2.17	14.37	6.84	0.56	2.79	0.94	0.90	6.61	6.46
ICE BofA US High Yield Index	0.54	10.28	1.85	2.82	3.69	0.54	10.28	1.85	2.82	3.69				

Performance shown represents past performance and is no guarantee of future results. *Current performance may be higher or lower than the performance shown. Investment return and principal value will fluctuate so shares, when redeemed, may be worth more or less than the original cost. Class A shares have a maximum front end sales charge of 5.75%. Class C shares have a one year contingent deferred sales charge (CDSC) of 1.0%. If sales charges were included, performance shown would be lower. Total returns assume the reinvestment of all distributions at net asset value and the deduction of all Fund expenses. Total return figures are based on the NAV per share applied to shareholder subscriptions and redemptions, which may differ from the NAV per share disclosed in Fund shareholder reports. Performance would have been lower if fees had not been waived in various periods. Numbers may be the same due to rounding. YTD is calculated from January 1 of the reporting year. All classes of shares may not be available to all investors or through all distribution channels. For the most recent month-end information, please call 888-593-5110 or visit millervaluefunds.com.*

[2]Inception date is 2/28/14.

[3]*Miller Value Partners, LLC (the Adviser) has contractually agreed to waive certain fees and/or reimburse certain expenses through 1/31/2024. Please reference the prospectus for detailed information.*

historical volatility and return assumptions when independent, objective thinking around extreme valuations and their implications suggests otherwise.

Times have changed, though, as the "World's Biggest Buyer" has become the "World's Biggest Seller." Since March 22nd of this year, the Fed has been shrinking their balance sheet by $27.8B per week, persistently draining liquidity from the system after stepping in during March's Silicon Valley Bank collapse. In our prior note, "Who's Afraid of an Inverted Yield Curve, Anyway?" we flagged the uselessness of economic forecasting when investing. We also pointed out that prognosticators calling for a recession because of an inverted yield curve were failing to account for the high level of uncertainty around inflation and yields, as reflected in the volatility implied by bond options markets. As of this writing, the 2- and 10-year discrepancy has reversed course, cutting the difference between the two yields by 80 basis points in just three months, generating newfound pundit optimism around a "soft landing."

All this talk of incorrect forecasts may appear disingenuous to new readers, who might think that value investing is about "predicting" outcomes better than others. Our process actually involves almost no predictions or forecasts and instead focuses on looking for extreme valuations whose underlying logic defies probabilistic thinking around base rates and the fungibility of money. The past decade was unique, presenting a major headwind for value investors, as a world awash in capital had very little respect for it. Venture capitalists and their alphabet-soup financing model ("Series A, B, C…") prioritized growth and scale at all costs in an effort to create either "the next monopoly" or at least the perception of such a possibility, which could then be sold to whoever was sitting on a fresh pile of free money. That game is over. Bonds are an investable asset class again, and capital is actually worth something. This means that companies which can produce excess amounts of it should trade at higher multiples than we have seen in recent memory.

So, where are we finding extremes today that might represent compelling risk-reward payoffs in light of the new paradigm?

Our entire portfolio is chock-full of such opportunities, if we do say so ourselves. Our third-largest holding at quarter end was **AT&T (T)**, a leading provider of communications and connectivity services in the US. At $15/share, the stock trades at the same price it did almost thirty years ago. The share price is much less interesting to us in relation to where it has traded in the past than in relation to how much cash the company generates and what management is doing with it. At just over 6x earnings, the stock trades near its lowest price-to-earnings (P/E) multiple ever, also representing its largest-ever P/E discount to the stock market. The business converts most of its earnings to free cash flow, implying a 16% forward free cash flow yield. Just under half of free cash flow is going toward the dividend (7.5% yield), while much of the balance is going to debt paydown. In other words, if the stock does not fall below its lowest-ever valuation, investors clip a rock-solid 7.5% in cash, while owning a growing portion of a very steady business as management reduces debt outstanding. A discounted cash flow model will suggest that intrinsic value for shares begins with a "2," suggesting the stock is undervalued on an absolute basis. The lack of volatility in the underlying fundamentals also makes it unique when compared to many other things we own, which reduces the probability of permanent capital impairment and argues for a significant weight in the portfolio.

AT&T looks particularly attractive when compared to some of the larger names dominating the S&P 500. Compare the stock to Apple, for instance, whose revenues and profits are likely to shrink this year, even as it trades at 29x this year's earnings estimate. The ongoing return to rationality and capital accountability, along with extreme valuations in the megacap tech stocks, have us more excited about our portfolio's prospects than we can remember for quite some time. As always, we remain the largest shareholders and welcome any questions or comments.

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Top Contributors

Name	% of Portfolio
GEO Group Inc.	7.7
Stellantis N.V.	6.2
AT&T, Inc.	5.5
CTO Realty Growth, Inc.	5.0
The Cannabist Co. Holdings, Inc.	4.9
OneMain Holdings, Inc.	4.7
Western Alliance Bancorp	4.5
Viatris Inc.	4.4
Vonovia SE	4.3
Jackson Financial, Inc.	4.3
Total	**51.5%**

Top 10 by Issuer as of 9/30/23

- **Chico's FAS Inc (CHS**) was the top contributor for the quarter, announcing that it will be acquired by private equity firm Sycamore Partners in a $1B deal, or $7.60/share in cash, which represented a ~65% premium to the company's closing stock price on the last trading day prior to the announcement of the transaction. The proposed deal would result in Chico's becoming a privately held company but includes a 30-day "go-shop" period that allows the company to solicit alternative proposals.
- **Jackson Financial Inc (JXN)** was another top performer during the quarter. The company reported 2Q23 Adjusted Operating Earnings per Share (EPS) of $3.34, -26.8% year-over-year (Y/Y), below consensus of $3.54. Management noted that its estimated Risk-Based Capital (RBC) ratio increased sequentially from 1Q23 and remained within their target range of 425-500%. Total annuity account value rose 9% Y/Y to $227B, driven primarily by higher equity markets over the trailing-twelve month (TTM) period. The company returned $100MM to common shareholders in the quarter via $47MM of share repurchases and $53MM in dividends, as management reiterated its full-year 2023 (FY23) capital return target of $500MM, or ~16.0% of the company's market cap. Statutory Total Adjusted Capital (TAC) fell to $3.8B as of quarter-end, compared to $4.7B at the end of 1Q23, with the reduction in TAC driven primarily by hedging losses as reserve releases were limited by the cash surrender minimum reserve, and related tax impacts including deferred tax asset admissibility limits.
- **Western Alliance Bancorp (WAL)** also performed well during the quarter. The regional bank reported 2Q23 EPS of $1.96, -18.0% Y/Y, slightly below consensus of $1.97, and Net Interest Margin (NIM) of 3.42%, -12bps Y/Y, below consensus of 3.50%. Tangible Book Value (TBV) per share stood at $43.09 (P/TBV of ~1.1x) at the end of the quarter, +17.5% Y/Y, while the bank's Common Equity Tier 1 (CET1) ratio came in at 10.1%, ahead of management's estimates for 10%+, in-line with consensus. The company posted quarterly deposit growth of $3.5B, or +7.3% sequentially, with total insured and collateralized deposits representing 81% of total deposits and available liquidity coverage of 276% of uninsured deposits. For the second half of 2023 (2H23), management is guiding for deposit growth of $2B per quarter, continued CET1 growth towards the company's 2024 target of 11%+, NIM of 3.55%, an Adjusted Efficiency ratio in the high-40's, and net charge-offs of 10bps, at the respective midpoints.

Top Detractors

- **Medical Properties Trust Inc (MPW**) was the top detractor during the quarter. The health care real estate investment trust (REIT) reported 2Q23 revenue of $337.4MM, -15.7% Y/Y, below consensus of $351.3M, and Normalized Funds from Operations (FFO) per share of $0.48, +4.3% Y/Y, ahead of consensus of $0.38. The company ended the quarter with total debt of $10.3B and an Adjusted Net Debt to Adjusted Annualized Earnings Before Interest, Taxes, Depreciation, and\ Amortization for Real Estate (EBITDAre) ratio of 6.8x, compared to 6.3x at the end of 2Q22. The company announced an updated capital allocation strategy going forward, which includes: i) a ~48% quarterly dividend cut to $0.15/share (11.0% annualized yield), ii) the pursuit of refinancing, asset sales, and joint-venture opportunities that bolster liquidity and enable the repayment of debt, and iii) a reduction in discretionary operating expenses and other costs for better alignment with the expected decrease in the company's asset base and near-term acquisition activities. Management also continues to target a long-term Net Debt to Adjusted EBITDAre leverage ratio of 5-6x. Management revised FY23 guidance for normalized FFO/share of $1.55 (vs. prior guidance of $1.58), or a P/FFO of 3.5x.
- **Organon & Co (OGN)** reported 2Q23 revenue of $1.61B, +1.5% Y/Y, ahead of consensus of $1.57B, and Adjusted EPS from continuing operations of $1.31, +4.8% Y/Y, well ahead of consensus of $1.00. Adjusted Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) for the quarter came in at $530MM, or a margin of 33.0%, +66bps Y/Y. Biosimilars revenue increased 14% Y/Y (+15% excluding the impact of foreign currency (ex-FX)), driven by a 20% Y/Y ex-FX increase in Renflexis sales, while the Women's Health

segment saw top-line growth of 8% (+10% ex-FX), driven primarily by Nexplanon sales growth of 12% ex-FX. The company maintained a quarterly dividend of $0.28/share, or an annualized yield of ~6.5%. Management revised FY23 guidance for revenue of $6.35B (vs. prior guidance of $6.30B), and an Adjusted EBITDA margin of 32.3% (vs. prior guidance of 32.0%), at the respective midpoints, implying FY23 Adjusted EBITDA of $2.05B, or an Enterprise Value (EV)/EBITDAmultiple of ~6.3x.

- **Medifast Inc (MED)** reported 2Q23 revenue of $296.2MM, -34.7% Y/Y, ahead of consensus of $253.5MM, and EPS of $2.77, -19.0% Y/Y, ahead of consensus of $1.44. The revenue decline was primarily driven by a 21.9% decline in active earnings OPTAVIA coaches and a 16.3% decline in average revenue per active earning coach. The company generated 2Q23 free cash flow (FCF) of $41.4MM, bringing TTM FCF to $199.6MM, or a FCF yield of 24.5%. The CEO noted that the company is already ahead of their expectations for delivering 200-300bps in annualized cost savings by the end of 2025 and hopes to realize 1/3 of these savings in 2023, which will be primarily earmarked for investing in the company's various growth initiatives. During the quarter, the company announced a new product line, OPTAVIA ACTIVE, which includes premium exercise supplements and protein powders, as the company targets new customer segments and looks to capitalize on the sports nutrition category, which possesses a total addressable market size of $30B. Management maintained its quarterly dividend of $1.65/share, or an annualized yield of 8.8%, and guided for 3Q23 revenue of $230.0MM and EPS of $1.02, at the respective midpoints.

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MILLER VALUE FUNDS

We are value investors focused on generating long-term performance by investing in undervalued companies we find at the intersection of our understanding of human behavior and markets.

The **ICE BofA US High Yield Index** tracks the performance of below-investment-grade, but not in default, U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P. The **S&P 500 Index** is a market capitalization-weighted index of 500 widely held common stocks. The **S&P 1500 Index** includes stocks in the S&P 500, S&P 400, and S&P 600 and covers approximately 90% of the market capitalization of U.S. stocks. It is not possible to invest directly in an index. The **30-Day SEC yield** is based on dividends accrued by the Fund's investments over a 30-Day period, and not on the dividends paid by the fund, which may differ and are subject to change. **Basis point** is one hundredth of one percent. **Dividend yield** is the ratio of a company's annual dividend compared to its share price. **EBITDA** is earnings before interest, taxes, depreciation and amortization and is a calculation of a company's financial health. **Earnings per share (EPS)** is the portion of a company's profit allocated to each outstanding share of common stock and serves as an indicator of a company's profitability. **Adjusted Operating EPS** is net income divided by shares outstanding and is an after-tax non-GAAP financial measure, which excludes certain items that may be highly variable from period to period due to accounting treatment under US GAAP or that are non-recurring in nature, as well as certain other revenues and expenses that management does not view as driving the company's underlying performance. **Free cash flow** is earnings before depreciation, amortization, and non-cash charges minus maintenance capital expenditures. **Leverage** is net debt (or gross/total debt less cash & cash equivalents) divided by market cap of equity. **Market cap** equals price times shares outstanding, or the total market value of all outstanding shares. **Price to earnings (P/E)** is the market price per share divided by earnings per share. Standard deviation is a measure of the amount of variation or dispersion in a set of values. **Yield curve** is a graphical representation of the interest rates available for bonds of equal credit quality and different maturity dates.

Equity securities are subject to price fluctuation and possible loss of principal. Small- and mid-cap stocks involve greater risks and volatility than large-cap stocks. Real estate investment trusts (REITs) are closely linked to the performance of the real estate markets. REITs are subject to illiquidity, credit and interest rate risks, and risks associated with small and mid-cap investments. Asset-backed, mortgage-backed or mortgage-related securities are subject to prepayment and extension risks. Investments in MLP securities are subject to unique risks, including the risks of MLPs and the energy sector, including the risks of declines in energy and commodity prices, decreases in energy demand, adverse weather conditions, natural or other disasters, changes in government regulation, and changes in tax laws. Short selling is a speculative strategy. Unlike the possible loss on a security that is purchased, there is no limit on the amount of loss on an appreciating security that is sold short. International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in emerging markets. Fixed-income securities involve interest rate, credit, inflation, and reinvestment risks; and possible loss of principal.

As interest rates rise, the value of fixed-income securities falls. High yield bonds are subject to greater price volatility, illiquidity, and possibility of default. As a non-diversified Fund, it is permitted to invest a higher percentage of its assets in any one issuer than a diversified fund, which may magnify the Fund's losses from events affecting a particular issuer. Derivatives, such as options and futures, can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance.

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