MILLER VALUE FUNDS

3Q 2018

Miller Income Fund

Not Our Maiden Voyage for a Diamond (Producer) in the Rough

Bill Miller IV, CFA
Portfolio Manager

Bill Miller, CFA
Chief Investment Officer & Portfolio Manager

The Miller Income Fund – Class I shares returned 0.37% during the third quarter of 2018, while its primary benchmark, the ICE BofAML US High Yield Master II Index, returned 2.44%. Despite most of our positions making money in the quarter, our stake in Maiden Holdings was the primary reason we failed to beat our benchmark. This quarter was an active one for the Fund, as we have several new, large positions that were not previously in the portfolio. We'd like to explain the activity, so this letter may be somewhat longer than past letters. We will review what happened with Maiden and how we might have done better, and we will also discuss some of our thinking on our more significant portfolio changes.

The most disappointing performer this quarter was Maiden Holdings, which tanked more than 60% during the period. The company, which provides specialized, non-catastrophic reinsurance, announced yet another reserve for previously unanticipated losses and also cut the dividend, neither of which

Average Annual Total Returns and Expenses (%) as of 9/30/18

	Without Sales Charges				With Maximum Sales Charges				Expenses[2]		30-Day SEC Yield	
	QTD	1 Yr	3 Yr	Inception[1]	QTD	1 Yr	3 Yr	Inception[1]	Gross	Net	with Waiver	w/o Waiver
Class A (LMCJX)	0.32	11.70	13.43	4.92	-5.44	5.31	11.22	3.58	1.82	1.75	5.53	5.51
Class C (LCMNX)	0.12	11.00	12.58	4.19	-0.87	10.00	12.58	4.19	2.56	2.50	5.12	5.10
Class FI (LMCKX)	0.28	11.66	13.38	4.82	0.28	11.66	13.38	4.82	2.90	1.75	5.93	5.85
Class I (LMCLX)	0.37	12.12	13.76	5.19	0.37	12.12	13.76	5.19	1.58	1.45	6.20	6.15
ICE BofA Merrill Lynch High Yield Master II Index	2.44	2.94	8.19	4.64	2.44	2.94	8.19	4.64				

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

[2]*Miller Value Partners, LLC (the "Adviser") has agreed to waive a portion or all of the management fees payable to it by the Fund and/or to pay the Fund's operating expenses to the extent necessary to limit the Fund's aggregate annual operating expenses (other than interest expense, brokerage commissions, dividend expense on short sales, taxes, extraordinary expenses, and acquired fund fees and expenses) to 1.25% for Class A, 2.00% for Class C, 1.25% for Class FI, and 0.95% for Class I through February 28, 2019. Net expense ratios are current to the most recent prospectus dated 1/31/2018 and are applicable to investors.*

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.*

we expected. We first bought the stock in the third quarter of 2017 and wrote about it in that shareholder letter. At the time we initiated the position, Maiden was trading at 60% of its then-stated book value. We thought the market's assumption of future reserve development was too large, and we believed the stock could grind back toward book value. While I am not sure we could have done a better job assessing the probability of future reserve development, we should have lightened up on the position in the early summer of this year when it traded within shouting distance of its then-stated book value. Instead, we allowed thesis creep to cloud our judgment, believing there was a chance of a reserve release and book value growth. We updated our analysis after the third-quarter results and Maiden's decision to sell the diversified business within the context of the latest sell-off. We also looked at the shareholder constituency and concluded there was a reasonable chance that a supply/demand imbalance in a thinly traded stock caused the recent steep declines more so than fundamentals, so we added a bit more. Run-off firms that specialize in winding down undervalued insurance businesses are now among the largest shareholders.

While we acknowledge there will be positions where we lose money, we hope to make more money from the names in the portfolio where we are right than we lose on the names where we are wrong. One such new name where we are especially optimistic is Macquarie Infrastructure, which yields more than 9% today. Macquarie has a diverse portfolio of infrastructure assets. The biggest contributor to Macquarie's revenues now is Atlantic Aviation, which provides fuel, terminal and hangar services to private aircraft at approximately 70 locations in the US. Macquarie Infrastructure may not be the most mispriced name in the portfolio, but it is among the names we think have the highest probability of compounding at an above-dividend-yield rate of return from this price, which is why it is a top weight. We first looked at Macquarie Infrastructure earlier this year when it fell 43% in one day because of a dividend cut. Dividend changes, as any CFA charterholder knows, do not change the intrinsic value of a company's assets. Significant volatility tied to a dividend change provides a ripe hunting ground for ideas. In our assessment, the stock was not far from intrinsic value just prior to the cut. We believe a significant portion of the shareholder base may have owned the stock largely because they thought the dividend was safe and likely to grow steadily, which would partially explain the severity of the stock's fall after the cut. Today, we estimate the stock trades near a 13% free cash flow yield, which means the reduced dividend should be well-covered. Management should be able to grow the dividend slowly over time with thoughtful capital allocation, and the alignment between management and shareholders is high. The management team and company both appear to think the stock is a good buy—executives have personally bought over $1 million since August, and the management company has purchased over a quarter-billion dollars' worth of stock since March. The bulk of management compensation is tied directly to the equity value and its performance relative to a utilities index, and Macquarie is not currently earning a performance fee, largely because of the share price performance on the heels of the dividend reduction, so the manager has a significant incentive to improve the stock's performance.

Another new position is Just Energy Group, which is the fourth-largest residential energy retailer in North America. A variety of weather events and issues that we believe will be transient caused multiple earnings misses and led to management turnover. The market has pushed the company's valuation relative to its contracted cash flows to an all-time low, prompting management to issue a statement describing the latest market pressure as "unwarranted," a rare but auspicious press release. Management has committed to the dividend numerous times, which means we get paid a very healthy 12% while we wait for the market to appreciate the company's potential. We believe there are multiple ways to win here, as we estimate the company's ownership stakes in Skydrop, ecobee and Filter Group could be worth more in one year than the current market cap of the entire company. Management, who have been buying the stock personally of late, also noted at their investor day that hiking prices to be in-line with the market would double profits, and that they have seen no additional attrition from customers for whom prices have increased.

Owning high-yielders with hidden asset value like Just Energy is one way we try to stay ahead of any potential inflation or rise in rates. Another way of accomplishing that is to buy high-yielding companies whose cash flows are likely to keep up with prices. ALROSA is a name that we think fits the bill. It is the largest producer of diamonds by carat weight in the world. Commodities may provide a good inflation hedge, and diamonds have historically been among the least volatile commodities, largely because three firms—ALROSA, De Beers and Rio Tinto—control approximately two-thirds of the global supply. While the stock trades in Russia, its sales will be predominantly in the most stable currencies, though much of its costs will be in Rubles. This produces a favorable economic tailwind, in our opinion, as the Ruble has not held up well to the currencies in which diamonds trade over the long term. Management also recently introduced a very favorable capital allocation framework that guides to a dividend of 100% or more of free cash flow when net debt is zero, which is where it is today. This would imply a mid-teens free cash flow and dividend yield at current prices. We also expect the US dollar free cash flow to grow meaningfully over the coming years, largely because of constrained diamond supply growth. Management is also optimistic, as the CEO bought almost $2 million worth of stock since April.

We funded these purchases through a combination of inflows and sales. The most significant liquidation was Abercrombie & Fitch, which we sold at a substantial premium to current prices. We did not foresee the stock's swoon, but we felt that other opportunities presented more compelling values. We originally liked Abercrombie because the company traded at less than 3x EBITDA with an 8% dividend yield, and we felt the downside was slim but the upside was potentially large. After the stock and valuation more-than doubled from where we bought it, we liked other valuations and prices better. We also eliminated mall REIT CBL & Associates, as the capital allocation and cash flows have continued to underwhelm us, and we think there is a reasonable possibility that management cuts the dividend again in the foreseeable future. Mortgage REIT Two Harbors is a new name, as it paid for our stake in CYS Investments with its own shares, seeing the same arbitrage opportunity that we did.

Hopefully this has been a helpful review of our thinking around some of the changes in the past quarter. We remain among the largest shareholders in the Fund and are optimistic about the portfolio and some of the values we are seeing in the market. As always, we welcome any questions or comments.

Bill Miller IV, CFA
October 15, 2018

FUND HIGHLIGHTS

Top Contributors

Top 10 by Issuer as of 9/30/18

Name	% of Portfolio
Macquarie Infrastructure Corp.	5.8
Apollo Global Management LLC	4.6
Avon Products, Inc.	4.6
Carlyle Group LP	4.6
National CineMedia, Inc.	3.9
Hi-Crush Partners LP	3.5
Public Joint Stock Company ALROSA	3.5
Endo Ltd.	3.4
CenturyLink Inc.	3.3
New Residential Investment Corp.	3.2
Total	**40.5**

- **National CineMedia (NCMI)** was the top contributor for the second quarter in a row, advancing 27.87% over the period after reporting strong Q2 results where revenues of $113.7M and Operating Income Before Depreciation and Amortization (OIBDA) of $52.3M came in above estimates of $109.2M and $48.3M, respectively. Strong scatter market demand trends and lower-than-expected operating expenditures (opex) drove the beat. Management boosted Fiscal Year (FY) 2018 guidance for revenue to $430M-$450M (previously $425-$445M) and OIBDA to $205-$215M (previously $200-$215M). The company maintained their $0.17/share dividend (7.0% annualized yield). Further, top holder Standard General purchased 86,000 shares for approximately $740,000, bringing their total to 182,000 shares added since early August.
- **CenturyLink Inc. (CTL)** rose 14.80% on strong Q2 results where Earnings Before Income, Taxes, Depreciation and Amortization (EBITDA) of $2.3B beat consensus estimates of $2.2B thanks to materially faster attainment of opex synergies from the Level 3 merger. Management raised FY18 guidance for EBITDA by $225M to $9.0B-$9.15B (previously $8.75B-$8.95B) and Free Cash Flow (FCF) by $450M to $3.6B-$3.8B (previously $3.15B-$3.35B), while lowering capital expenditures by $150M. The company maintained their $0.54/share dividend (10.3% annualized yield).
- **Blackstone Group LP (BX)** was up 20.04% over the period. The company reported strong Q2 economic net income of $0.90, handily surpassing consensus estimates of $0.74 and the dividend of $0.58/share (6.7% annualized yield). Private equity gains of 9.5% drove the beat, which led to stronger-than-expected net performance fees. In addition, the company hosted their Investor Day where they conveyed their robust cash flow outlook, as well as an increasing contribution of recurring fee-related earnings via 50%-75% growth over the next

two years. This comes on the back of a ramp in fundraising, where management expects $150B of inflows through 2019 and has set assets under management (AUM) targets of $600B within two years, $800B in 4-5 years, and $1T in 8+ years (versus current AUM of $439B). The company also guided to a fee-related earnings target of $2.1B (~$1.75/share) in two years and $2.4B (~$2.00/share) in three years, equating to 50%-75% growth from the last twelve months of $1.4B ($1.14/share). This should also lead to distributable earnings stability, with management expecting fee-related earnings to grow to 65% of distributable earnings over time versus 45% currently.

Top Detractors

- **Maiden Holdings Ltd. (MHLD)** was the top detractor over the quarter falling 62.68% after reporting Q2 earnings per share (EPS) of -$0.13, well short of estimates for $0.25. Yet another adverse reserve development caused the miss, and management cut the dividend 67% to $0.05/share (6.2% annualized yield). Bermuda regulators changed their calculation methodology and regulatory capital requirements to a 120% target margin, causing a $237M (+37%) increase to Maiden's capital requirement, bringing their ratio to 110%, short of the regulator's target. The company also announced the sale of its U.S. domestic insurance company, Maiden Reinsurance North America, to Enstar for $307.5M. Further, CEO Art Raschbaum and CFO Karen Schmitt announced their retirements, effective September 1, 2018 and March 1, 2019, respectively.
- **Seaspan Corp. (SSW)** fell 17.20% during the period, despite posting a quality print where Q2 EPS of $0.23 was in-line with consensus estimates and easily covered the $0.125/share dividend (6.1% annualized yield). EBITDA of $178.6M (+32% sequentially) topped expectations of $177.9M and the company seamlessly integrated the GCI merger, posted a 98.6% utilization rate, and ramped up FCF to $113M (+82% Y/Y). Weakness, however, stemmed from continued trade concerns, as well as from fears on the sustainability of containership charter rates, which have seen extended gains year to date.
- Preferred shares of **AmTrust Financial Services Inc. (AFSI)** fell 12.04% over the quarter. The company reported a Q2 EPS loss of $0.57, well short of estimates of $0.26. The loss was driven by lower service and fee revenue, coupled with higher core losses and expenses. A.M. Best downgraded AmTrust's Financial Strength Rating from "A" to "A-" with a stable outlook, but added the company still maintains a very strong balance sheet.

Contact

Advisor Services

888-844-4403 | advisors@millervaluefunds.com

About Miller Value Funds

We think and invest differently in our pursuit of long-term performance. We believe that our edge comes from understanding and capitalizing on human behavioral tendencies. We value research from uncommon sources to help us understand that market as a complex adaptive system. Our investment approach remains consistent: we value businesses and invest in them for the long term. **millervaluefunds.com**

The **ICE BofA Merrill Lynch U.S. High Yield Master II 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. An investor cannot invest directly in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges.

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. **Book value** is the value at which an asset is carried on a balance sheet. **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. **EBITDA** is earnings before interest, taxes, depreciation and amortization and is a calculation of a company's financial health. **Free cash flow (FCF)** is a measure of the cash generated after accounting for capital expenditures. **OIBDA** is a measure of financial performance to show profitability in continuing business activities, excluding the effects of capitalization and tax structure.

Earnings growth is not representative of the Fund's future performance.

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.

The views expressed are those of the portfolio managers as of the date indicated, are subject to change, and may differ from the views of other portfolio managers or the firm as a whole. These opinions are not intended to be a forecast of future events, a guarantee of future results, or investment advice. All data referenced are from sources deemed to be reliable but cannot be guaranteed. Discussions of individual securities are intended to inform shareholders as to the basis (in whole or in part) for previously made decisions by a portfolio manager to buy, sell or hold a security in a portfolio. References to specific securities are not intended and should not be relied upon as the basis for anyone to buy, sell or hold any security. Portfolio holdings and sector allocations may not be representative of the portfolio manager's current or future investment and are subject to change at any time. Dividends are not guaranteed and a company's future ability to pay dividends may be limited.

The Miller Value Funds are distributed by Quasar Distributors, LLC.

Must be preceded or accompanied by a prospectus.