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AMG Yacktman Focused I YAFIX

An adaptable strategy shines again.

Morningstar's Take YAFIX

Morningstar Rating	★★★★★
Morningstar Analyst Rating	Silver

Morningstar Pillars

Process	High
Performance	—
People	Above Average
Parent	Average
Price	—

Role In Portfolio

Core

Fund Performance

Year	Total Return (%)	+/- Category
YTD	16.62	-9.60
2020	17.52	14.61
2019	19.30	-5.74
2018	3.11	11.64
2017	20.25	4.30

Data through 12-31-21

8-27-21 | by Adam Sabban

AMG Yacktman Focused receives a Morningstar Analyst Rating of Silver across both share classes because of its opportunistic process and skilled management team.

This strategy earns its keep when markets become volatile, as in 2020. That year was just the latest example of managers Stephen Yacktman and Jason Subotky executing their "defense to offense" playbook in a steep sell-off. Entering that period with a 25% cash stake helped the fund lose 8 percentage points less than the Russell 1000 Value benchmark through the market's March 23 trough. Meanwhile, they used some of that cash to pick up new names and add to existing holdings, doing enough to capture 100% of the benchmark's 64% gain from March 24 through year's end. All told, the fund's 17.3% gain in 2020 finished in the large-value Morningstar Category's top decile and beat the benchmark by 14.5 percentage points.

The managers' style explains why they've handled similar environments well. They typically anchor the portfolio in financially strong, stable companies, but pounce on more cyclical businesses when they get cheap enough, as they did in 2008 and 2011. In 2020, the managers reduced exposure to steadier large-caps and shifted to smaller companies and those within the more economically sensitive financials, materials, and industrials sectors. They will also look abroad for opportunities. They picked up shares of German automotive company Continental AG in 2020's first quarter, a period in which they plummeted about 50%. Shares recovered their losses and then some by December 2020. The managers have more leeway here to invest in foreign securities (and derivatives) than on the fund's more-diversified sibling, Silver-rated AMG Yacktman YACKX. Full-market cycle performance is stellar but investors here must be patient during prolonged up markets, mostly due to a variable yet persistent cash stake. The managers' absolute-value focus led them to hold 10% to 30% in cash from 2012 through 2019, for example, a period defined by rising equity valuations.

A small but growing team guides this flexible strategy. Since 2013, Yacktman and Subotky have brought in three new members, including Adam Sues who became comanager in May 2021. The added resources should help the managers navigate what's become an increasingly global opportunity set. While the ride can be lumpy, this strategy should treat long-term investors well.

Process Pillar High | Adam Sabban 08/27/2021

This strategy's unique, flexible, and disciplined process earns a High Process rating.

Managers Stephen Yacktman and Jason Subotky have historically skewed toward value-oriented stocks, but this strategy doesn't fit neatly into one box. On the one hand, the team's preference for companies with strong free cash flows, reasonable debt, high returns on capital, and modest cyclicality leads them to bellwethers like Johnson & Johnson JNJ and Microsoft MSFT. On the other, management will buy more-cyclical names, often coming out of a recession and a bear market when they trade at low valuations relative to their earnings power. This playbook has delivered strong results during tumultuous periods such as the 2008 global financial crisis and 2011 euro crisis.

While the managers are active during volatile periods, they don't trade much overall. Once a stock is in the portfolio, the team lets its high-quality business compound capital at attractive rates. But if they cannot supplement such staple positions with other reasonably priced opportunities, they will let cash build to 20% or more of assets, preferring to wait for a more-fruitful environment.

The managers focus their efforts on U.S. stocks but have other avenues to pursue opportunities. They'll pick up bonds on occasion if they offer equity-like returns and invest heavily overseas when valuations are lower than in the U.S.

Although still a high-conviction portfolio, it is less concentrated at the top than in the past. Indeed, the portfolio has regularly held 50%-70% of assets in its top 10 holdings but just 41% as of June 2021. The type of companies favored has also shifted. Whereas in the early 2000s steady consumer staples stocks, such as Proctor & Gamble PG and PepsiCo PEP, anchored the portfolio, tech and communications companies now represent three of the top five largest holdings. Less exposure to traditionally defensive fare hasn't dulled the portfolio's quality bent, though. Its median return on capital, interest coverage, and leverage ratios all graded out better than those of the Russell 1000 Value Index.

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Small- and mid-cap exposure can be significant when bargains abound. The strategy's stake in these companies grew from 2019- to mid-2020, peaking at around 45% of equities. The managers picked up 14 new stocks in 2020's bear market, many of which carried market caps under $5 billion, a figure which firmly fell into small/mid-cap territory. While that stake fell to 19.5% in June 2021, that was still one of the strategy's higher tallies over the past decade.

The fund continues to find more opportunities overseas due to cheaper valuations. Its stake in non-U.S. companies went from 0% of assets in 2013 to 37% as of June. Top holdings include South Korean tech giant Samsung and French conglomerate Bollore SA.

Performance Pillar | Adam Sabban 08/27/2021
This strategy's conservative positioning in normal market environments, combined with its tendency to outperform in volatile periods, necessitates a broad view when evaluating performance. High cash stakes amid a largely rising market from 2012 through 2019, for example, depressed results relative to the Russell 1000 Value category benchmark. Including the 2007-09 credit crisis alters the perspective, though, as the managers' opportunistic trading during that period powered the strategy's record over the ensuing decade. They applied the same playbook again in 2020. Conservative positioning helped the strategy pull back less than the bogy through the market's March 23 trough, while adding beaten-down cyclicals helped it capture 100% of its upside through the subsequent recovery. Even with a slow start in 2021, 2020's stellar 17.3% calendar-year return still placed the fund in its category's top quartile over the past five years through July 2021.

Yet even a five-year period is sometimes too short a timeframe to cast judgement. While the strategy has outperformed the Russell 1000 Value in 61% of rolling five-year periods since Stephen Yacktman's late 2002 start, it came ahead 92% of the time on a rolling 10-year basis--a time period that better captures a full market cycle.

Given its conservative leanings and persistent cash stake, the strategy's record shines even brighter on a risk-adjusted basis.

People Pillar ◉ Above Average | Adam Sabban 08/27/2021
The strategy's creative manager duo and their small, yet capable, team earn an Above Average People rating.

Stephen Yacktman and Jason Subotky are more seasoned than their tenure here suggests. They co-led this strategy well before Don Yacktman officially stepped down in 2016, and came to the job with ample experience. Stephen has worked on the fund since 1997 and has been a comanager since year-end 2002. Subotky has been a comanager since year-end 2009 and joined the firm in 2001. Both also have more than $1 million invested in the fund.

Team additions over the past decade have strengthened the bench here. The firm hired Adam Sues in 2013 to broaden their research effort, installing him as sole manager of global small-cap strategy AMG Yacktman Special Opportunities YASLX in 2014. Yacktman credits Sues with helping the team find more opportunities in foreign stocks, culminating in another promotion in May 2021 to comanager on this fund. The firm also hired Brandt Dusthimer as an analyst in April 2015. A former software engineer, Dusthimer has developed advanced screens for the group. Most recently, junior analyst Jon Danielson joined in 2021, bringing the total to five research personnel.

While market conditions haven't always been favorable for its style, the team's skill and commitment to its investment principles have led to superior risk-adjusted returns relative to peers and benchmarks over the long term.

Parent Pillar ◉ Average | Linda Abu Mushrefova 11/04/2020
AMG Funds has some strong affiliates, but a lack of consistency in its offerings and recent lineup changes damp conviction. It maintains an Average Parent rating.

While AMG's stronger affiliates have held up relatively well, net outflows have caused the firm and its affiliates to liquidate or merge subscale offerings, including AMG GW&K US Small Cap Growth and AMG River Road Dividend All Cap Value. In another instance, affiliate Chicago Equity Partners shuttered its business entirely, spurring a subadvisor and name change on AMG GW&K Global Allocation. Recent challenges in AMG's quantitative offerings have contributed most substantially to outflows, with shops such as AQR suffering the most.

Historically, AMG has grown by acquisition, but the firm has seen a dry spell in new partnerships, and it has thus recently closed far more offerings than it has introduced. Leadership at the firm plans to change that, though, and it has made some smaller investments more recently. It acquired a minority equity interest in Comvest Partners, a middle-market private equity and credit investment firm, in 2020. It also made an investment in startup Inclusive Capital Partners (a firm with an environmental, social, and governance focus), founded by ValueAct (another affiliate) founder Jeff Ubben. AMG's recent investments reflect its continued focus on alternative strategies and newer emphasis on ESG.

Price Pillar | Adam Sabban 08/27/2021
It's critical to evaluate expenses, as they come directly out of returns. The share class on this report levies a fee that ranks in its Morningstar category's second-costliest quintile. That's poor, but based on our assessment of the fund's People, Process and Parent pillars in the context of these fees, we still think this share class will be able to overcome its high fees and deliver positive alpha relative to the category benchmark index, explaining its Morningstar Analyst Rating of Silver.

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Average annual returns (%)[1,2,3] (as of 12/31/21)

	Inception	Q4	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Incpt
YAFFX (Class N)	05/01/97	5.26	16.45	16.45	17.61	14.97	12.67	10.37
YAFIX (Class I)	07/24/12	5.28	16.62	16.62	17.81	15.18	-	13.19
Primary Benchmark	-	7.77	25.16	25.16	17.64	11.16	12.97	8.73[4]
Secondary Benchmark	-	11.03	28.71	28.71	26.07	18.47	16.55	9.53[4]

Expense Ratios (gross/net): Class N 1.29% / 1.28%, Class I 1.10% / 1.10%

Top ten holdings (%)[5]

Holding	% of Net Assets
Samsung Electronics Co Ltd Preferred	9.70
Bollore SA	6.48
PepsiCo Inc	4.94
Microsoft Corp	4.89
Canadian Natural Resources Ltd	4.30
Associated British Foods PLC	3.61
Alphabet Inc, Class C	3.37
Cognizant Technology Solutions Corp, Class A	2.95
KT&G Corp	2.68
Brenntag SE	2.63
TOTAL %	45.54

[1] Returns for periods less than one year are not annualized.

[2] The performance information shown for periods prior to June 29, 2012, is that of the predecessor to the Fund, The Yacktman Focused Fund, which was reorganized into the Fund on June 29, 2012, and was managed by Yacktman Asset Management LP with the same investment objective and substantially similar investment policies as those of the Fund.

[3] Effective June 30, 2020, the primary and secondary benchmarks were changed. The Russell 1000® Value Index became the primary benchmark and S&P 500 Index the secondary benchmark; previously the S&P 500 Index was the primary benchmark and the Russell 1000® Value Index was the secondary benchmark.

[4] Since the inception of the Fund's Class N shares of the Fund's Class N shares on May 1, 1997.

[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.

The performance data shown represents past performance. Past performance is not a 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.

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 visit amgfunds.com for a free Prospectus. Read it carefully before investing or sending money.

Past performance is no guarantee of future results.

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 Fund may suffer significant losses on assets that it sells short. 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.

The Fund is subject to the risks associated with investments in debt securities, such as default risk and fluctuations in the perception of the debtor's ability to pay its creditors. Changing interest rates may adversely affect the value of an investment.

An increase in interest rates typically causes the value of bonds and other fixed income securities to fall.

The Fund may invest in derivatives such as options and futures; the complexity and rapidly changing structure of derivatives markets may increase the possibility of market losses.

The Russell 1000 Value and the S&P 500 Index are provided for illustrative purposes only, are unmanaged, reflect reinvestment of income and dividends and do not reflect the impact of advisory fees. The S&P 500 is a widely unmanaged index of market activity based on the aggregate performance of a selected portfolio of publicly trade common stocks and we have included the results of such index to give you a perspective of the historical performance of the U.S. equity market.

A greater percentage of the Fund's holdings may be focused in a smaller number of securities which may place the Fund at greater risk than a more diversified fund.

High-yield bonds (also known as "junk bonds") may be subject to greater levels of interest rate, credit, and liquidity risk than investments in higher rated securities. These securities are considered predominantly speculative with respect to the issuer's continuing ability to make principal and interest payments. The issuers of the Fund's holdings may be involved in bankruptcy proceedings, reorganizations, or financial restructurings, and are not as strong financially as higher-rated issuers. Investments in international securities are subject to certain risks of overseas investing including currency fluctuations and changes in political and economic conditions, which could result in significant market fluctuations. These risks are magnified in emerging markets.

Companies that are in similar industry sectors 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.

The Fund is subject to risks associated with investments in mid-capitalization companies such as greater price volatility, lower trading volume, and less liquidity than the stocks of larger, more established companies.

The Fund is subject to risks associated with investments in small-capitalization companies, such as erratic earnings patterns, competitive conditions, limited earnings history and a reliance on one or a limited number of products.

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.

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.

The S&P 500® Index is a capitalization-weighted index of 500 stocks. The S&P 500 Index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Russell 1000® Value Index is a market capitalization weighted index that measures the performance of those Russell 1000® companies with lower price-to-book ratios and lower forecasted growth values.

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

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The Manager Research Group evaluates funds based on five key pillars, which are process, performance, people, parent, and price. The Manager Research Group uses this five-pillar evaluation to determine how they believe funds are likely to perform relative to a benchmark over the long term on a risk adjusted basis. They consider quantitative and qualitative factors in their research. For actively managed strategies, people and process each receive a 45% weighting in their analysis, while parent receives a 10% weighting. For passive strategies, process receives an 80% weighting, while people and parent each receive a 10% weighting. For both active and passive strategies, performance has no explicit weight as it is incorporated into the analysis of people and process; price at the share-class level (where applicable) is directly subtracted from anexpected gross alpha estimate derived from the analysis of the other pillars. The impact of the weighted pillar scores for people, process and parent on the final Analyst Rating is further modified by a measure of the dispersion of historical alphas among relevant peers. For certain peer groups where standard benchmarking is not applicable, primarily peer groups of funds using alternative investment strategies, the modification by alpha dispersion is not used.

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