

AMG Yacktman Special Opportunities Fund Year End Update

December 31, 2019

SEMI-ANNUAL INVESTOR LETTER

Class I | YASSX

Class Z | YASLX



Average Annual Returns (%)¹ (as of 12/31/19)

	QTD	YTD	1 yr	3 yr	5 yr	Since Incpt.
YASSX (Class I)	6.93	10.20	10.20	10.02	-	8.44 ²
YASLX (Class Z)	6.90	10.27	10.27	10.13	7.46	5.68 ³
MSCI All Country World Index All Cap	9.07	26.29	26.29	12.05	8.33	7.08 ³

YASSX (Class I) Expense Ratio (Gross/Net)⁴: 2.06%/1.84%

YASLX (Class Z) Expense Ratio (Gross/Net)⁴: 1.96%/1.74%

The performance data shown represents past performance. Past performance is not a guarantee of future results. 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.

For the six months ended December 31, 2019, the **AMG Yacktman Special Opportunities Fund** (the "Fund") Class I shares returned 10.20%, behind the 26.29% return of the MSCI All Country World All Cap Index (ACWI).

The global stock market, once again led by the U.S., had an exceptionally strong year, bouncing back from the sell-off in the fourth quarter of 2018. Given the strong results, one may think that the global economy is booming. Yet in stark contrast to equity prices, corporate earnings showed little or no growth, falling well short of analysts' forecasts at the beginning of the year. Multiple expansion was the key driver of stock market gains. Given our value focus, the Fund's performance did not keep up with this blistering pace despite absolute returns in line with long-term equity returns.

We own businesses that tend to be smaller, underfollowed, and misunderstood—far from the fast growth and high popularity stocks that have dominated indexes (and therefore passive index and ETF buying as well). Strong recent returns have led to high prices and investor complacency, a hallmark for elevated risk. We feel the Fund is well-positioned to navigate riskier markets. We have held firm to our

conservative investment process and remain invested in a portfolio of above average companies at below average prices. We believe this value discipline will serve the Fund's shareholders well over the full market cycle.

Stock Markets and 'Normal' Accidents

One of our favorite books this past year was *Meltdown* by Chris Clearfield and András Tilcsik. The book builds on studies by the late Yale sociologist Dr. Charles Perrow, whose groundbreaking work on the Three Mile Island nuclear disaster led to a more comprehensive examination into the causes of catastrophic accidents. Perrow combed through hundreds of accidents across a wide range of industries to identify patterns. He found two common factors. First, the systems tended to be highly complex with many moving parts that could interact in unexpected ways. Second, the systems tended to be tightly coupled—an engineering term meaning there was little "slack" in the system to diagnose any unexpected issues and recover before catastrophe. Nuclear power plants and space missions are systems that satisfy these two factors. Tightly coupled, complex systems are therefore susceptible to "normal" accidents, or accidents that are natural and unavoidable despite the best intentions of operators and regulators. Combining too much complexity with the tendency for problems to cascade into each other leads to inevitable accidents. The authors go on to demonstrate that our daily lives now increasingly operate within such systems.

The stock market appears to satisfy Perrow's criteria. It is clearly a complex system, with many moving parts and hidden influences that are impossible to understand, at least in advance. In today's market, higher valuations and debt levels increase the tightly coupled nature of the market by removing slack from the financial system. The market is increasingly pulled along by high-flying growth stocks, software-as-a-service companies, or money-losing health care names, as investors all pile into what has worked lately. Multiples of 5x, 10x, and even 20x sales are not unusual, all on the expectation (some would argue hope) that future profits will eventually materialize. It appears that many "value" investors have shifted from low valuations toward buying quality companies at almost any price, pushing strong cash-flowing businesses up to record multiples. At the same time, corporate-level debt is near record levels, as companies have binged on debt at low interest rates to repurchase shares. Principal and interest payments on debt remain fixed even during downturns, potentially leaving many companies with little choice but to restructure. Investment mistakes happen to everyone but they end up being far more costly in leveraged situations. The exact trigger for the eventual cascade of issues is unknowable but expectations are unreasonably elevated. High expectations leave little buffer for something to go wrong.

In response, we have structured the Fund with as much slack as possible. We own solid businesses that generate underlying value over the long term so we are not reliant on another participant to pay even higher multiples. We are cautious about firms with financial leverage, especially after long periods of above average returns. Instead, we prefer to sacrifice speculative upside in exchange for a more robust balance sheet that gives flexibility to reinvest back into the business during the downturn or take advantage of overleveraged competitors. We pay low prices for our holdings, allowing for a large margin of

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

² Since the inception of the Fund's Class I shares on June 30, 2015.

³ Since the inception of the Fund's Class Z shares on June 30, 2014.

⁴ The Fund's Investment Manager has contractually agreed, through May 1, 2020, to limit fund operating expenses. The net expense ratio reflects this limitation, while the gross expense ratio does not. Please refer to the Fund's Prospectus for additional information on the Fund's expenses.



AMG Yacktman Special Opportunities Fund Year End Update

December 31, 2019

SEMI-ANNUAL INVESTOR LETTER

Class I | YASSX

Class Z | YASLX

safety so that we can earn an adequate rate of return even if several upside avenues fall short. We avoid situations where stocks are priced for perfection, instead preferring investments where expectations are low and positive surprises achievable. All of these factors together help to minimize risk while leaving plenty of slack to take advantage of panic selling when the trouble starts.

Fund Portfolio Overview

Financial Metrics	YASLX / YASSX	MSCI ACWI All Cap	S&P 500®	Russell 2000®
Price/Earnings (P/E)	13.0	18.6	23.0	18.6
Price/Book Value (P/BV)	2.0	2.2	3.4	2.1
Price/Cash Flow (CF)	5.9	11.4	13.8	10.9
Price/Sales (P/S)	0.6	1.6	2.6	1.6
Enterprise Value/EBIT	9.9	16.2	19.0	15.3
Debt to Equity	68.1%	143.0%	173.6%	158.0%
Return on Assets (ROA)	4.2%	7.9%	10.0%	0.7%

Source: FactSet, as of December 31, 2019

The Fund's holdings in aggregate continue to trade at a substantial discount to the broader market while employing much less financial leverage. The low levels of debt are often a byproduct of the types of businesses we invest in—strong businesses that generate good unlevered returns and strong cash flows. This allows growth projects to be funded without depending on equity or credit markets. In addition, many of our companies have large ownership positions by families or founders who tend to manage the finances in a more conservative way than the “optimal” methods prescribed in business school textbooks. This conservatism, while causing returns to lag during sustained bull markets, will help mitigate the inevitable downturn. We prefer the downside protection today.

While a useful resource, the above portfolio metrics fail to capture every nuance of the portfolio—and many opportunities are hidden in such nuance. For example, our largest position remains IMF Bentham, Ltd. (IMF), the litigation finance company out of Australia. IMF's old case portfolio was less diversified, which meant a large case win (or loss) could skew results in any given year. Earnings were therefore lumpy and uncertain. IMF's latest fiscal year was a poor one with negative earnings. Despite the poor year, underlying value markedly improved. As we observed in past letters, the incredible growth in IMF's case portfolio (almost quadrupling in the last five years) would translate into future earnings over time. Here we are. In the past six months IMF reported a slew of case wins which are estimated at more than AUD300 million in future revenue, almost as much as IMF reported in the last four years combined. But until these case wins flow through to the 2020 earnings report, IMF's trailing valuation numbers hurt the portfolio metrics. Other holdings that do not screen well include Reading International, Inc. class A shares (Reading) (hidden real estate assets) and Naked Wines Plc (Naked Wines) (reinvesting in growth markets at high returns). We will continue to prioritize forward returns over trailing metrics. We are constantly fine-tuning the portfolio. Adjusting position sizes up or down in response to price movements is necessary when optimizing for risk-adjusted future returns. Holdings such as Total Energy Services, Inc. (Total Energy) grew from a smaller investment to a much more prominent weighting in response to price declines during the year. Averaging down requires in-depth knowledge of the business and conviction in the investment process despite short-term volatility. Adding capital to our favorite ideas at better prices is a big part of our

investment process. In addition, it is encouraging that several new additions to the portfolio have also grown to be top ten positions (Naked Wines, B&S Group S.A.R.L., Sam Yung Trading Co Ltd.). We are hopeful they will contribute significantly to future results.

Contributors/Detractors

Top contributors for 2019 were Computer Services, Inc. (CSI), IMF, and Samsung Electronics Co. Ltd. (Samsung). All three positions have been held in the Fund since inception (5.5 years), further evidence of our long-term orientation. Since initial purchase, the three positions handily outperformed the market, with an average total return of 21% per year versus only 7% for the benchmark. Due to opportunistic buying and selling, returns for shareholders were even higher. We have reduced weightings in CSI and Samsung in response to the higher prices as the forward rate of return was less attractive relative to other positions in the portfolio.

On the other hand, IMF remains our largest position, as the underlying thesis remains stronger than ever. We commented over several letters about IMF's built-up earnings potential. The dam has burst for IMF in the last six months with a string of case wins including the company's largest judgment in history (subject to appeal). The litigation finance industry remains in the early innings, with IMF well-placed as one of the premier global players. A transition to a capital-light funding model should also lead to a more attractive earnings stream that remains uncorrelated to the overall stock market. Few stocks can make this uncorrelated claim and fewer still also trade at inexpensive prices. IMF still clears the bar for us.

The top three detractors were Reading, Total Energy Services Inc. (Total Energy), and Lamprell Plc (Lamprell). All three companies operate in deeply out-of-favor industries yet exhibit unique characteristics that stand out from competitors.

Reading's cinemas were not immune to the domestic box office challenges in 2019 (the total annual box office was down roughly 4%) as investors remain concerned about the long-term future for the movie business. However, a large portion of Reading's value is backed by its real estate holdings which deserve a far higher earnings multiple. In addition, Reading has a potential catalyst in ongoing litigation over control of the company, which helps realize the substantial hidden value in a hurry. An eventual sale would be the preferred outcome.

Both Total Energy and Lamprell provide equipment and services to the oil & gas industry, one of the most out-of-favor sectors in the market. Lamprell's location via its fabrication yard in the United Arab Emirates provides a geographic advantage in constructing jack-up rigs and offering fabrication services to clients in the Middle East. The company has run into challenges in diversifying away from oil & gas (primarily into the renewables segment) but the opportunity is significant if they can successfully open this market. A strong balance sheet has served as an insurance policy through the recent struggles but the company now needs to convert this backlog into firm contracts in order to complete the turnaround.

Total Energy is run by the founder & CEO who has built the business conservatively via organic growth and acquisitions over more than two decades.

AMG Yacktman Special Opportunities Fund Year End Update

December 31, 2019

SEMI-ANNUAL INVESTOR LETTER

Class I | YASSX

Class Z | YASLX

After watching the company execute through the oil & gas downturn in 2015–2016, we bought an initial position in mid-2018. As investors turned increasingly bearish on the industry over this past year, we significantly increased our position at much lower prices. Total Energy now trades at a low single-digit multiple on our free cash flow estimates despite its two largest divisions operating at sub-20% utilization. Both the company and insiders have also been buying shares in the market. Total Energy is best described as a coiled spring, with the potential to earn multiples of current earnings on any industry recovery.

Conclusion

We have not changed our investment philosophy and process over the past year. We own above average companies at below average prices with concentrated weightings. The result is a Fund that looks much different than the index. We are still finding opportunities that meet our return goals while staying aligned with our risk discipline. The longer this bull market continues, the more market participants forget about risk in their search for yield. We intend to stay far away from the most tightly coupled portions of the market to keep as much slack in our portfolio as possible. This is a differentiated approach and we believe it is the right one for the long term. Our objective remains to produce attractive risk-adjusted returns over a full market cycle and we appreciate shareholders who entrust us with capital in pursuit of this goal.

This commentary reflects the viewpoints of the portfolio manager, Yacktman Asset Management LP, as of December 31, 2019, is not intended as a forecast or guarantee of future results, and is subject to change without notice.

Top Ten Holdings(%)⁵ (as of 12/31/19)

Holding	% of Net Assets
IMF Bentham Ltd	7.44
Reading International Inc, Class A	5.78
Naked Wines PLC	5.42
Ocean Wilsons Holdings Ltd	5.15
Total Energy Services Inc	4.98
Colabor Group Inc Fixed 6.00% Oct 2021	4.52
B&S Group Sarl 144A	4.51
Samsung Electronics Co Ltd Preferred	4.01
Sam Yung Trading Co Ltd	3.83
Boustead Singapore Ltd	3.48
TOTAL %	49.12

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.

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 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.

High-yield bonds (also known as "junk bonds") are subject to additional risks such as the risk of default.

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.

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.

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.

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.

The MSCI ACWI All Cap Index captures large, mid, small, and micro cap representation across certain Developed Markets (DM) countries and large, mid, and small cap representation across certain Emerging Markets (EM) countries. The index is comprehensive, covering a significant percentage of the global equity investment opportunity set. Please go to msci.com for the most current list of countries represented by the index. Unlike the Fund, the index is unmanaged, not available for investment and does not incur expenses.

The Russell 2000® Index is composed of the 2000 smallest stocks in the Russell 3000® Index and is widely regarded in the industry as the premier measure of small-cap stock performance.

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 S&P 500® Index is proprietary data of Standard & Poor's, a division of McGraw-Hill Companies, Inc. All rights reserved.



AMG Yacktman Special Opportunities Fund Year End Update

December 31, 2019

SEMI-ANNUAL INVESTOR LETTER

Class I | YASSX

Class Z | YASLX

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.

AMG Funds are distributed by AMG Distributors, Inc., member FINRA/SIPC.