AMG Yacktman Special Opportunities Fund - Year-End Update - December 31, 2015

SEMI-ANNUAL INVESTOR LETTER

Class I | YASSX | Class Z | YASLX

AMG Yacktman Special Opportunities Fund – Year-End Update – December 31, 2015

For the twelve months ending December 31, 2015, the **AMG Yacktman Special Opportunities Fund** (the Fund) delivered a return of -14.22%. The benchmark, the MSCI All Country World Index (ACWI) All-Cap, returned -2.16% during the same period.

Although 2015 was a challenging year, we never wavered from our value investing principles. The good news is the discount to intrinsic value in our core holdings increased, boosting our estimate of future returns. The Fund decline was due to poor business results from some holdings exacerbated by exposure to underperforming and unpopular areas of the market. Weightings in international and small-cap stocks proved to be headwinds in the short term even though we believe this exposure will be a long-term positive. Value in general was out-of-favor, but such periods have often set up strong absolute and relative performance. Perseverance is required to stick with a value investing strategy, but the challenge of maintaining this discipline allows value investing to work in the first place.

Some of our inexpensive holdings declined and became even cheaper throughout the year. Rather unusually, we had no "big winners" to offset the declines in our top holdings, as some of our better performing ideas had only a small initial weighting in the Fund. Negative business momentum was punished swiftly and harshly this year, while a shrinking group of high-growth stocks continued to levitate. As stock prices declined in many holdings, we reexamined the underlying investment thesis and valuation. We responded by adding to many of our positions and now own more of our best ideas at even cheaper prices. We believe this strategy will produce superior results over time.

Portfolio Review

	YASLX / YASSX	MSCI ACWI All Cap Index	S&P 500® Index
Price/Earnings (P/E)	9.84x	16.39x	18.20x
Price/Book (P/B)	0.78x	1.72x	2.36x
Price/Cash Flow (CF)	6.00x	10.29x	11.75x
Price/Sales (P/S)	0.49x	1.20x	1.69x
Debt to Equity	30.5%	88.2%	93.6%
ROA%	7.1%	6.7%	8.1%

The Fund trades at a significant discount to the valuation of the market. Yet our companies generate roughly equal return on assets and utilize much less leverage. Therefore, we believe we hold better-than-average companies at below-average prices. In many cases, we believe normalized earnings for these companies are much higher, making the relative metrics even more attractive.

At year-end, the Fund owned 47 holdings. There has been quite a bit of change with position resizing despite little movement in the number of holdings. Importantly, this activity understates the amount of analysis and due diligence which occurred over the last year. We turned over a lot of rocks in search of gems, but growing our watch list of potential ideas will be a key factor in future performance.

Holdings outside of the U.S. continue to represent the majority of the Fund, led by Australia (16%), the United Kingdom (8%) and South Korea (9%). This foreign currency exposure continued to be a drag on performance as currency declines caused our foreign holdings to be worth less when translated back to U.S. Dollars (USD). We do not try to forecast currency movements, but believe it is unlikely for the USD to strengthen against all major currencies indefinitely. Any future tailwind from currency would be a nice bonus but we are not counting on it and expect to perform regardless.

The cash position is less than 5% of the Fund. Given our wide investment universe (a key feature of the Fund's investment mandate), there are always potential ideas to consider. The opportunities have grown richer in the last few months as volatility increases, and we are more excited about potential ideas today than we have been in the last several years.

Idea Overview

Our focus remains on equity investing, but having a flexible approach to finding value is important. At times, dislocations happen in the market where other pieces of the capital structure become more attractive. One newer idea that became a bigger position is the debt of Emeco Holdings Ltd. (EHL AU), specifically the 9.875% bonds due in 2019. With the Emeco bonds, we believe we are getting equity-like returns (in fact, very

attractive equity returns with a YTW of 29.5%[1]) while taking much less risk. Emeco's capital structure is straightforward with only a single $335m (USD) bond. We believe the opportunity is available because Emeco's bond is somewhat orphaned – a micro-cap Australian mining company with a small issue of USD-denominated 144A debt, which limits the pool of potential investors.

Emeco is the largest mining equipment rental company in the world. The mining and oil and gas downturn has put severe pressure on pricing and utilization. New management took over last summer and placed machines back to work while cutting costs and selling off excess assets for cash. While the financials are messy and the credit agencies outlook is negative, Emeco still generates enough cash to make interest payments.

In addition to over $30m (AUD) of cash on the balance sheet and positive working capital, Emeco also benefits from semi-liquid property, plant and equipment (PP&E), which is rare. The majority of Emeco's equipment is Caterpillar bulldozers and dump trucks, where there is a robust resale market. This secondary market gives Emeco the option of shrinking the business by turning metal into cash to manage leverage. While there is a decent chance Emeco can make it through the downturn, the debt is attractive as the required recovery rate on the over $500m (AUD) in PP&E is very low if the business deteriorates further.

Management's recent repurchase of $72.5m (AUD) of the bonds at a steep discount shows the company is open to all steps for managing its capital structure. The presence of two activist investors with over 35% ownership in the business also gives us comfort. Holding debt with substantial asset backing makes it much easier to sit on the position in the face of a downturn. Equity investing continues to be our focus, but we are happy to take advantage of opportunities like Emeco when available.

Contributors / Detractors

One of our largest contributors to performance was SK Kaken Co. Ltd (4628 JP), a company selling a broad range of architectural coatings throughout Japan and Southeast Asia. SK Kaken is the market leader in Japan for many of its product categories, with close to 50% market share. From FY00-FY14, sales grew every single year (a remarkable achievement given the Japanese economic situation) before falling 4.5% in FY15, following an increase in the country's sales tax rate. Even with the slight pause in growth, we believe the business remains a high quality one. The share price increased markedly in 2015, so we reduced the position but kept a small weighting.

Tessi SA (TES PA) is one of the largest business process outsourcing (BPO) companies in France. Besides BPO services and a small division offering marketing promotional services, the crown jewel is CPoR Devices (CPoR). CPoR holds a monopoly position in France as the official broker for foreign currency and gold transactions within the country. Gold is often viewed as a safe haven during market crashes, so Tessi is especially attractive in our Fund as its main division should perform better in times of market fear and panic. Since peaking in 2011 at the height of the Euro crisis, CPoR earnings have fallen along with the decline in gold prices. Even so, the division earns 30% operating margins, with room to increase earnings if fear sweeps the world again. Tessi has been far more active on the acquisition front in the last 6-12 months, a positive for future returns.

LG Household & Health Care (LGH&H) (051905 KS) is a consumer products company based in South Korea with operations across cosmetics, health/personal goods and beverages. As a fast-growing consumer products stock, LGH&H has usually enjoyed a rich valuation. However, we own the stock via its preferred shares[2], which traded at over a 50% discount to common shares for most of the year. We believe the preferred shares allow us to own one of the highest-quality companies in South Korea at more than 50% off. Driven by strong growth overseas, the stock doubled in 2015 and we trimmed the position. Although not as cheap as before, the preferred shares still trade at a large discount to the common shares. Samsung Electronics' recent shareholder return announcement (including a preference for buying back preferred shares over common shares) could be a catalyst for other Korean companies to follow, including LGH&H.

The top three detractors – Hargreaves Services Plc (HSP LN), IMF Bentham Ltd. (IMF AU) and America's Car-Mart Inc. (CRMT US) – contributed the majority of the Fund's decline this year.

Investing in Hargreaves at higher prices has proven to be a mistake, and shows the perils of investing in commodity-related businesses (our direct commodity exposure is limited across the Fund, although we have felt some indirect pain via related industries and countries). The bad news for Hargreaves has been unrelenting, with low coal prices, stricter emission policies, warm winter weather and the closure of the last remaining steel plant in the U.K. all impacting the business. We were forced to reduce our estimate of intrinsic value, but believe upside remains as the share price decline has been far greater. Thankfully, management has acted rationally in cutting costs and preserving balance sheet flexibility. Despite the terrible macro environment, the business remains profitable and traded at just 60% of tangible book value at the end of the year. We also believe the balance sheet is understated, with a major real estate development project providing further upside into FY17.

IMF Bentham showcased one of its most valuable attributes – non-correlation to the equity markets – but unfortunately in the wrong direction. As a reminder, the business suffered a string of case losses in the early part of FY15. While the last twelve months were poor, litigation financing is a lumpy business. One year of results does not represent the normalized earnings of the more than $2b in active cases. At the start of 2016, the selling continued and the stock traded below book value. Litigation financing is booming worldwide, and Bentham possesses some

[1] Yield to worst. As of December 31, 2015.

[2] We described the thesis behind Korean preferred shares in our semi-annual report.

advantages as the most successful and longest-running firm in this space. With Bentham below book value, the market is forecasting the company will likely lose money on the money invested in active cases. If this is true, there is little incentive for outside capital to enter the litigation finance industry. Why commit capital to new cases and wait 2-3 years for a payoff when entrants could invest in a seasoned portfolio of cases at a discount to the original investment via Bentham? We do not believe the company has suddenly lost its ability to source quality case investments. For context, Bentham generated an ROI of over 150% across 175 cases, running up a 94% success rate even with the recent losses. At less than 2x our estimate of normalized operating profits, we believe Bentham remains one of the most attractive stocks in the Fund despite the market ruling against us so far.

America's Car-Mart was one of the top contributors as noted in our inaugural letter, but has since reversed course. While we reduced our position somewhat at higher prices, the price decline in Q4 has allowed us to build it once again into a top three holding. The subprime used car market has experienced intense competitive pressure over the last several years, as companies reach for yield in a low-interest-rate environment. Car-Mart has faced squeezing margins on car purchases, slowing same-store sales growth at its older dealerships and reduced recovery rates on repossessions. Competitors are picking off some of Car-Mart's better customers by offering more attractive terms (i.e. 72-month loans) despite the somewhat questionable merits of this behavior long-term (a six-year loan on a seven-to-ten-year-old car strikes us as foolish for both parties). The pressures culminated in the quarter ending October 31, 2015, as management was forced to raise the provision for credit losses and reset inventory levels. However, some of these problems have been self-inflicted. Car-Mart opened a number of new dealerships and implemented a long IT project and compliance overhaul, which has proved distracting. The combination of an increased focus on making good loans and the seasoning of newer dealerships (credit losses typically improve as dealerships mature) allows for better execution even if the credit environment does not turn immediately. The business remains highly cash generative, conservatively funded and management has shown a willingness to aggressively repurchase shares. At year-end, Car-Mart was also trading at a discount to tangible book value and our estimate of run-off value[3]. Car-Mart has been in business since 1982 and management has been through many cycles before. We are confident they will prosper coming out of this cycle as well.

Conclusion

We are excited about the prospects for the Fund in 2016 and beyond. On balance, we feel we hold good companies at below-average prices, measured on both an absolute and relative basis. After several years of operating in a steadily rising market, volatility has returned in a big way in 2016. As value investors, we relish this environment. We continue to be diligent in managing the Fund and our goal remains to protect and grow shareholder capital over the long-term.

This commentary reflects the viewpoints of Yacktman Asset Management LP as of December 31, 2015 and is not intended as a forecast or guarantee of future results.

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 to download a free prospectus. Read it carefully before investing or sending money.

Past performance is no guarantee of future results.

A short-term redemption fee of 2% will be charged on redemptions of Fund shares within 60 days of purchase.

The Fund's investment management fees are subject to a performance adjustment, which could increase or reduce the investment management fees paid by the Fund. The prospect of a positive or negative performance adjustment may create an incentive for the Fund's portfolio manager to take greater risks with the Fund's portfolio. In addition, because performance adjustments are based upon past performance, a shareholder may pay a higher or lower management fee for performance that occurred prior to the shareholder's investment in the Fund. The performance adjustment could increase the Investment Manager's fee (and, in turn, the Subadvisor's fee) even if the Fund's shares lose value during the performance period provided that the Fund outperformed its benchmark index, and could decrease the Investment Manager's fee (and, in turn, the Subadvisor's fee) even if the Fund's shares increase in value during the performance period provided that the Fund underperformed its benchmark index.

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 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 can invest in securities of different market capitalizations (small-, mid- and large-capitalizations) and styles (growth vs. value), each of which will react differently to various market movements.

The Fund is subject to currency risk resulting from fluctuations in exchange rates that may affect the total loss or gain on a non-U.S. Dollar investment when converted back to U.S. Dollars.

The Fund is subject to the special risks associated with investments in micro-cap companies, such as relatively short earnings history,

[3] We view run-off value as all cash produced from the existing loan portfolio without selling any additional cars. With an average loan maturity of less than three years, Car-Mart quickly turns outstanding loans into cash.

competitive conditions, less publicly available corporate information, and reliance on a limited number of products.

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

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.

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.

The Funds are 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.

The Fund may use derivatives, such as options and futures, which can be illiquid, may disproportionately increase losses, and have a potentially large impact on performance.

Price/earnings (or P/E) ratio is a comparison of the company's closing stock price and its trailing 12-month earnings per share.

Price/book (or P/B) ratio is calculated by dividing the market price of a company's outstanding stock by its book value (total assets of a company less liabilities) and then adjusting for the number of shares outstanding. Stocks with negative book values are usually excluded from this calculation.

The price-to-cash-flow (or P/CF) ratio is a stock valuation indicator that measures the value of a stock's price to its cash flow per share. The ratio takes into consideration a stock's operating cash flow (OCF), which adds non-cash earnings such as depreciation and amortization to net income.

The price-to-sales (or P/Sales) ratio is a valuation ratio that compares a company's stock price to its revenues. The price-to-sales ratio is an indicator of the value placed on each dollar of a company's sales or revenues.

EV/EBIT equals a company's enterprise value (market capitalization plus debt, minority interest and preferred shares, minus total cash and cash equivalents) divided by earnings before interest and tax.

Debt/Equity (D/E) Ratio, calculated by dividing a company's total liabilities by its stockholders' equity, is a debt ratio used to measure a company's financial leverage.

Return on assets (ROA) is the percentage a company earns on its assets in a given year. The calculation is net income divided by average total assets. The better the company, the more profit it generates as a percentage of its assets.

The MSCI All Country World Index (ACWI) All Cap covers approximately 14,000 securities and includes large, mid, small and micro cap size segments for all Developed Markets countries in the index together with large, mid and small cap size segments for the Emerging Markets countries.

All MSCI data is provided 'as is'. The products described herein are not sponsored or endorsed and have not been reviewed or passed on by MSCI. In no event shall MSCI, its affiliates, or any MSCI data provider have any liability of any kind in connection with the MSCI data or the products described herein. Copying or redistributing the MSCI data is strictly prohibited.

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 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.

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

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