AMG Yacktman Special Opportunities Fund Mid-Year Update
June 30, 2020

SEMI-ANNUAL INVESTOR LETTER

Class I | YASSX   Class Z | YASLX

Average Annual Returns (%)[1] (as of 06/30/20)

	Q2	YTD	1 yr	3 yr	5 yr	Since Incpt.
YASSX (Class I)	25.07	-14.96	-12.35	-1.60	4.14	4.14[2]
YASLX (Class Z)	25.00	-14.93	-12.34	-1.52	4.24	2.41[3]
MSCI All Country World Index All Cap	19.89	-7.09	1.14	5.49	6.08	5.18[3]

YASSX (Class I) Expense Ratio (Gross/Net)[4]: 1.45%/1.29%
YASLX (Class Z) Expense Ratio (Gross/Net)[4]: 1.35%/1.19%

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 June 30, 2020, the **AMG Yacktman Special Opportunities Fund** (the Fund) Class I shares returned -14.96%, behind the -7.09% return of the MSCI All Country World All Cap Index (ACWI).

In our most recent letter to investors, we commented that the market was priced for perfection and that "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."

Well, that was quick…. That letter was published not far from the market peak and was soon followed by one of the most volatile months in history. While we cannot claim any special prescience about the March selloff, it does demonstrate how rapidly expensive markets can unravel when something goes wrong. It reminds us of a two-year-old who skips a nap—risks are high even if all seems calm on the surface. A global pandemic was not the number one concern on our list of "what could go wrong" when we penned the 2019 letter despite our concerns over the COVID-19 news out of China. But that's the thing about complex and interconnected systems like the stock market: The exact trigger isn't the point, only that a small push can tip the market into chaos. It strikes us as hopeful to think that "stopping" the economies of much of the world via lockdowns will not have long-term ramifications.

So far, the U.S. stock market has ignored or at least looked through the economic damage in the second quarter. We could spill a great deal of ink trying to predict how the macro environment unfolds. What are the long-term health ramifications? How will fiscal stimulus play out? Will there be lasting shifts in consumer behaviors? Will geopolitical tensions escalate further? We just don't know with any certainty—an answer that, despite its truth, may be unsatisfying. What we do know is that the risks are even higher and the future is even murkier compared to 12 months ago.

It is also important to remember that with an uncertain future, some of the low probability scenarios are extremely dire, even if still unlikely. The market seems to flip-flop between two extremes. On one hand, the economy faces one of the worst environments in generations. On the other, there are clear signs of excess and speculative mania gripping the markets that echo the tech bubble (see the rise of Robinhood day traders).

We remain focused on our goal through such uncertain times: to seek out and invest in above-average companies at below-average prices to generate long-term returns for our shareholders.

Doing the Next Right Thing

At quarter end on March 31, the S&P 500® Index was down -19.60%, one of the most volatile and worst quarters in history. Year to date through June 30, the S&P 500 is only down -3.08%, barely a blip and maybe a healthy pullback from a strong 2019. Now consider the difference in perception if we had written this letter after the first quarter instead of after the second. After a strong rally, the headline performance this year glosses over the tremendous volatility in the last six months. It reinforces our view that investors should focus on the long term rather than on quarterly movements.

On a personal note, we have been watching more television during this virus-imposed lockdown. With two young children, that often means Disney movies on repeat. In the movie Frozen II, the main character sings a line that sticks out for its parallel to investing: "do the next right thing." It is easy to look wistfully at the stock prices of the software or quality growth names this year. A handful of stocks are reaching stratospheric levels and carrying the market back again near all-time highs. We cannot control how the market prices our Fund holdings on a daily or monthly basis, but we can do the next right thing with the new data points available. Resetting expectations can help ensure the best possible portfolio to navigate an uncertain environment. We initiated a top-to-bottom portfolio review to right-size weightings and upgrade the portfolio's quality. This

[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, 2021, 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.

meant eliminating some positions where the forward rate of return or business prospects were no longer attractive. Some of these positions resulted in a permanent loss of capital, a result we strive to avoid. The Fund still holds a group of companies trading at a deep discount to market averages for above-average business quality. With these actions, we believe the portfolio has moved in the right direction, as the discount has increased while quality has improved.

We have gravitated toward small, undiscovered companies outside of the U.S. to stay true to our value-oriented investment style. As a category, small-cap value stocks fell even harder during the March selloff and have not fully recovered. For example, the MSCI Small Cap Value Index is still down -22.34% for the year to date through June. By comparison, the all-cap benchmark is down -7.09% and both lag the S&P 500 Index, which has staged a strong rally, down only -3.08% for the year to date through June. The selloff also caused a volatile year for currencies, with some depreciating against the U.S. dollar by 15–20% in a few weeks. This dollar strength causes a drag on Fund performance given our international tilt.

One other quirk that exacerbated the selloff in small-cap stocks was timing. Many smaller companies do not report year-end earnings until mid-March or later, lagging large-cap companies who largely finished reporting to the market by February. For some international stocks that publish on a semi-annual instead of quarterly cadence, the last known data point during the nadir of the March selloff was from a June 2019 financial statement—nine months out of date! The combination of this information vacuum with lower liquidity caused panic selling in smaller companies that went far beyond any direct hit to underlying business value from the pandemic.

The Fund has recovered strongly from the low point in late March, but performance is still negative for the year to date as of June 30, and lagging the benchmark. Many small-cap stocks have hit valuation levels not seen since 2008–2009, if ever. The selloff tended to be indiscriminate across companies regardless of balance sheet strength or robustness of the business model. Liquidity and flows appeared to overwhelm fundamental rationale. Panic selling without regard to underlying business value is a textbook opening for value investors. Small-cap value stocks were inexpensive before; now they are historically so. We have been investing more to capture the opportunity while remaining cautious in our approach.

We added 11 new positions during the half year, including some from our watchlist that we have followed for years. We also exited 10 positions, including long-time holdings such as America's Car-Mart Inc. and Computer Services Inc. due to stellar performance over the life of the Fund. Other exits were because our thesis worked out (JAKKS Pacific bonds paid out at par, a great risk-adjusted result in a difficult business) or we lost confidence in the business model or strategy (Spice Private Equity AG, Thai Wah Public Company Co.). We also added significant capital to existing positions at much lower prices. Opportunities to add capital have continued through the second quarter recovery. We believe the Fund is well positioned to navigate what we expect will be a tumultuous time over the intermediate term.

Contributors/Detractors

The top three contributors for the first half of the year were Naked Wines plc, GMO Pepabo Inc. (Pepabo), and FutureFuel Corp. Both Naked Wines and Pepabo were in the portfolio pre-crisis and are clear beneficiaries of the current environment. Both share a common trait of investing money back into the business via marketing dollars to grow market share in a large online market. This hurts near-term earnings in favor of long-term business value but does not flatter the price-to-earnings ratio. Some of our better investments have hidden value behind an expensive-looking earnings multiple (see our long-time holding in the litigation finance company Omni Bridgeway Ltd. as an example).

Naked Wines is an online wine subscription business. Subscribers' monthly payments help fund up-and-coming winemakers. Naked Wines provides bottling, distribution, and marketing services. Marketing and customer acquisition are especially important but key sticking points for launching a new wine label. These logistical necessities take time and attention away from the art of winemaking. Naked Wines leverages this direct-to-consumer subscription model to eliminate the costly alcohol distributors in the middle of the traditional supply chain. The result is higher quality wines at much lower prices, a claim backed by strong retention rates for subscribers. Naked Wines has the potential to be many multiples of its current size given how large the profit pool is in the U.S. alone. The lockdowns due to COVID-19 were a major boon for the business. Sales in April and May were up 81% and the shift to online wine sales caused 20 years of channel shift to play out in a month or two. The company does not "screen" cheap because they are reinvesting in growth, but we are confident they could show significant cash generation if they ever want to revert to steady-state numbers. Meanwhile, this new cohort of customers has the potential to dramatically increase the value of the business.

GMO Pepabo is another beneficiary of the current crisis but it took the market longer than expected to appreciate this dynamic. Pepabo provides web hosting, domain registration, and e-commerce tools to consumers and businesses in Japan. These services are high-margin, asset-light income streams. Pepabo's balance sheet is strong, with excess cash and investments as a meaningful portion of the market value. Pepabo also runs an online e-commerce platform for handmade goods called minne, similar to Etsy in the U.S. The volume of merchandise sold at minne is growing rapidly, and the virus should only accelerate this trend (Etsy saw over 100% growth in April as a comparable data point). Online "platform" businesses tend to trade at sky-high multiples in the U.S. but minne is essentially available for free given the inexpensive valuation of the profitable core business. Pepabo's stock fell over -40% during Q1 but then spiked into the June quarter-end (up almost 3x from the bottom). We sold some of the shares purchased during the selloff.

FutureFuel was a quick success, as we entered the position in January only to close out by May. FutureFuel runs a chemical plant in Arkansas producing specialty chemicals and biodiesel. We tend to avoid complex, heavily politicized industries like biodiesel, but a new government policy went into effect in December 2019 that signaled a major windfall profit for the company. Many companies would trumpet this good news at every opportunity, but FutureFuel is tight-lipped with investors—no earnings calls, little or no interaction with sell-side, and terse press releases. We felt that the market was missing the impact of this key news item given the lack of published information. The stock sold off during the March downturn despite a cash balance (adjusted for the expected cash payment) almost equal to the market capitalization. We aggressively increased our position, knowing the cash pile served as downside protection. Management confirmed the windfall late in March, soon followed by paying a $3.00-per-share special dividend, and the stock moved to 52-week highs. We exited the position on the run-up. Such special situations are not core but an important element of our strategy. The FutureFuel opportunity allowed us to deploy capital in a low-risk situation and then monetize the investment during the depths of the crisis when capital was valuable. It was a strong contributor to our semi-annual performance and even more so when considering its impact on the rest of the Fund.

The top detractors during the first half of the year were Reading International Inc. (Reading), Total Energy Services (Total Energy), and Ocean Wilsons Holdings Limited (Ocean Wilsons). All three were squarely impacted by events in the first half of the year—Reading (cinema closures), Total Energy (oil & gas services), and Ocean Wilsons (oil & gas and trade disruptions).

Reading runs a hybrid model of operating movie theaters in the U.S., Australia, and New Zealand alongside real estate assets providing rental income, often anchored by a Reading cinema. The pandemic was a perfect storm: Movie attendance is normally anti-cyclical, real estate tenants typically provide steady income, and court systems usually keep functioning—all are relevant to the Reading thesis and the pandemic impacted each of them at the same time. The business now faces an uncertain short-term future to go along with the core theater division's long-term challenges. Yet Reading gets lumped in with other cinema operators despite a much more favorable position. Unlike other cinema operators, Reading's real estate portfolio provides a buffer during a downturn. At these prices, we feel the real estate covers more than 100% of the company's value, implying negative value for the cinema division. Still, value has been destroyed by the lockdowns, and the fight among the family for control of the company has been a major distraction and roadblock to unlocking Reading's potential. It reinforces the importance of alignment with quality management, and these concerns require caution despite the lower prices of Reading's stock.

By comparison, Total Energy has a well-incentivized, highly motivated management team that should allow the company to survive a horrific environment for oil & gas. Oil markets plummeted during the first half of the year from the twin impacts of a demand shock and supply glut. Oil & gas service companies like Total Energy are in for a difficult period despite some recovery in oil prices as upstream drillers slash capital spending budgets. Total Energy is well placed to navigate through the downturn with a solid balance sheet backed by real estate assets. The rest of the industry faces bankruptcies and consolidation, which should provide upside for surviving players. We also gain comfort that Total Energy's CEO has been buying shares nearly every week through the period. This is a bold vote of confidence in the company's long-term future despite the bleak short-term outlook. With the stock trading at an 80%+ discount to the book value of its assets, we believe those insider purchases will be rewarded.

Like Total Energy, Ocean Wilsons was also affected by the downturn in the oil & gas industry via its Brazilian subsidiary. Brazil was already facing a difficult economic situation that has persisted since 2014. Now the twin effects of COVID-19 and the downturn in oil have caused further pressures. Ocean Wilsons reduced its annual dividend by more than 50% during the selloff, adding further pressure on the shares. While there are near-term headwinds, we feel they are more than priced in at the Brazil subsidiary, which still has a bright future. We also benefit from owning a conservative investment portfolio that should provide downside protection at the parent company level. Ocean Wilsons trades at a significant discount to the sum of its parts and a low multiple of depressed earnings while we wait on a recovery.

Conclusion

We are in one of the most uncertain times in recent history. The market has rallied back near all-time highs while the range of possible outcomes has only become wider. That combination does not strike us as an attractive risk/reward scenario. We will continue to invest in solid companies with good management at inexpensive valuations. In time, we believe cash flows will win out and value will be unlocked within our investment universe. We wish health and safety to everyone during these difficult times. We appreciate your continued trust as we manage the capital invested in the Fund.

This commentary reflects the viewpoints of the portfolio manager, Yacktman Asset Management LP, as of June 30, 2020, is not intended as a forecast or guarantee of future results, and is subject to change without notice.

AMG Yacktman Special Opportunities Fund Mid-Year Update
June 30, 2020

SEMI-ANNUAL INVESTOR LETTER

Class I | YASSX   Class Z | YASLX

Top Ten Holdings (%)[5] (as of 06/30/20)

Holding	% of Net Assets
Omni Bridgeway Ltd	6.22
Colabor Group Inc Fixed 6.00% Oct 2021	5.96
Naked Wines PLC	5.67
B&S Group Sarl 144A	5.27
Total Energy Services Inc	4.22
Ocean Wilsons Holdings Ltd	4.21
Trecora Resources	3.72
Sam Yung Trading Co Ltd	3.62
Reading International Inc, Class A	3.40
Samsung Electronics Co Ltd Preferred	3.07
TOTAL %	45.36

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.

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.

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.

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.

[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.