AMG Yacktman Special Opportunities Fund Year-End Update

December 31, 2020

SEMI-ANNUAL INVESTOR LETTER

Class I | YASSX   Class Z | YASLX

YACKTMAN ASSET MANAGEMENT

Average Annual Returns (%)[1] (as of 12/31/20)

	Q4	YTD	1 yr	3 yr	5 yr	Since Incpt.
YASSX (Class I)	27.39	12.66	12.66	3.67	13.41	9.19[2]
YASLX (Class Z)	27.40	12.83	12.83	3.79	13.51	6.75[3]
MSCI All Country World Index All Cap	15.77	16.31	16.31	9.68	12.14	8.45[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 twelve months ending December 31, 2020, the **AMG Yacktman Special Opportunities Fund** (the Fund) Class I shares returned 12.66%, behind the 16.31% return of the MSCI All Country World All Cap Index (ACWI).

Remember back to March—a 16.31% return for the year probably wouldn't have even made the oddsmaker's board if asked to make a prediction at the time. 2020 was a volatile year in the stock market, but let's not forget the suffering around the world due to the impact of the COVID-19 virus. This was a tough year, no matter what the stock market said at the end.

Our job is to manage the investment side, and on that front we are proud of the recovery from the March downturn and satisfied with the solid absolute performance. The market has been surprisingly resilient in the face of the year's turmoil. We should acknowledge there are reasons for optimism with vaccines arriving in 2021, bringing the potential for a return to "normal." We (and our families) look forward to that with relief. We imagine a big rush of demand in areas like travel and experiences, but we are not convinced that the pandemic's economic and social damage will be brushed away so easily. How many people will look around in the second half of 2021 and find that "normal" means a lower standard compared to 2019?

Yet in many areas, we are observing signs of speculative behavior that go far beyond any "re-opening" scenario. Exuberance is back, whether it's the rise of special purpose acquisition companies (SPACs), enthusiasm for EV/battery companies, or the ever-higher sales multiples for technology companies (10x sales? Maybe the next investor will pay 20–50x?).

Many of these companies benefited from 2020's unique circumstances. The managers and retail investors who rode the wave are full of confidence. We'd characterize much of this as speculation or even gambling rather than rational investing where fundamentals and valuation matter. It stands to reason that future returns from here will likely be far below historical standards. Even many of the recovery plays (airlines, cruises, retail, and restaurants as examples) are now trading at normalized valuations above pre-pandemic levels, despite still facing many months of cash burn and lugging around expensive debt raised in the pandemic. It seems that the concept of risk or downside protection is given scant attention in the face of rising prices. Why bother when stocks only go up? (Just don't look at March.)

We are determined not to get carried away by the crowd and remain focused on our core mission: buying above average businesses at below average prices and paying attention to risks. It might not be as popular, but we feel it's necessary to protect capital over the longer term.

Portfolio Year in Review

One of our core tenets is that we are long-term investors. Almost 25% of current holdings have been in the Fund since inception. Our portfolio turnover is far below peers, yet we also strive to stay nimble and re-orient our thinking when facts or prices change. There were plenty of changes in both dimensions in 2020. This discipline led to a marked increase in Fund activity. We ended the year owning 51 positions versus 52 in 2019, so much of the activity was shifting the Fund toward achieving the best risk-adjusted returns. We remain concentrated with the top ten holdings at 50% of the portfolio, combined with a tail of smaller opportunities we hope to grow into larger weightings.

Overall, one of our greatest assets is a strong investor base that understands our philosophy and believes in the long-term approach. Minimal withdrawals during March allowed us to buy aggressively almost every day during the initial drawdown. Much of this capital went into companies that we already owned and knew well. That conviction was rewarded, in some cases quite rapidly and profitably. For example, incremental purchases of our investment in GMO Pepabo (Pepabo) near the March lows more than tripled by the end of June. We also

[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.

AMG

added a significant number of new ideas during the year, taking advantage of the selloff to refresh the holdings.

Our investment performance in 2020 was not without flaws. We spent too much time on potential credit opportunities during the selloff when the future was murkiest, on the idea that debt must be repaid no matter what happens in the pandemic. We've had tremendous success in this area before and managed to deploy some capital, but the opportunity was quickly taken away by government actions propping up the debt markets. In hindsight, that research time would have been better used elsewhere.

We also re-allocated away from some ideas that held up in March (for example, Naked Wines) toward companies that had far sharper stock price declines. The pandemic turbocharged Naked Wines' business and our trimming proved far too early. We also did not completely escape some of the more disrupted sectors with exposure to names like Reading International (cinemas) and Total Energy (oil & gas services). However, most of our companies muddled through a challenging environment. Profits will decline this year but the businesses remained cash flow positive with strong balance sheets. We are confident in their potential to bounce back quickly as life normalizes in 2021 and beyond. Overall, our actions added value relative to where the portfolio started the year. Valuations in our portfolio holdings are still conservative, and many still have a long way to go to reach pre-pandemic levels (and further still to our estimates of fair value). In an environment characterized by low expected returns and outsized risks, we believe our portfolio is well positioned.

Surfing the Investment Landscape

Reading far and wide is a core element of our investment process. Much of this reading might appear boring to an outsider—years of annual reports, financial footnotes, conference call transcripts, trade articles, and business biographies. Occasionally, we take a break and read beyond the investing and finance sphere. The standout this year was a book called *Barbarian Days: A Surfing Life* by William Finnegan. A memoir about the author's life as a surfer since the 1960s, the book is a fascinating tale of adventure and discovery. Finnegan writes about his "search for the perfect wave," a journey that carried him all over the world. It was a nice break from the markets, but we couldn't help but relate some of the stories back to investing.

In San Francisco, Finnegan surfed the cold winter ocean with a friend named Doc. Describing the conditions at Ocean Beach, Finnegan wrote, "on bigger days, when you're looking out from the water's edge across a stepladder of six or seven walls of cold, growling, onrushing white water, the idea of paddling out actually carries with it a whiff of lunacy. The project looks impossible, like trying to swim up a waterfall." How many investment ideas look scary at first glance, only to find the ideal setup for those willing to look past the surface conditions? Many of our opportunities could qualify where complicated accounting or a convoluted corporate structure may turn off other investors. All else equal, we prefer simplicity. It's easy to buy the household names that everyone recognizes. It's sometimes harder, but more worthwhile, to uncover the hidden gems.

Or consider Kirra, a famous wave in Australia considered one of the world's top ten surfing spots when Finnegan visited in the late 1970s. "The longest tube rides of my life," he said. Yet a few years later, a major ocean dredging project caused the wave at Kirra to all but disappear. Investment opportunities, especially the best ones, are not immune to outside influences. A change in competitive dynamics can blindside a once-strong company. In other cases, prices catch up to the fundamental story, and future returns are quickly compressed. Great ideas, like surfing spots, are often rare. Our goal is to make the top ideas count.

A favorite anecdote is from the initial part of Finnegan's surfing trip around the world. Journeying through the South Pacific, Finnegan ended up in Fiji where he heard rumors about a great wave off an uninhabited island called Tavarua. The location was remote and to our non-surfer ears sounded unpleasant (no shelter, a lack of fresh water, and described as "very snaky"). The surfers also had to be patient, waiting on the island for a week or more with no surfing action. Then, with the right conditions and swell, Tavarua turned into a "dream wave," the closest Finnegan had seen to perfection. "I had never, in a lifetime of surfing, been confronted with such abundance." After surfing for weeks, Finnegan said, "by the time we left Tavarua that year, we figured nine surfers knew about the wave…in the small world of surfing, the wave was a major discovery." His description of Tavarua mirrors our love of the investment process.

In the age of the internet and widespread financial data, basic information on companies worldwide is accessible to most investors. Yet there are many structural reasons why opportunities show up in overlooked companies. To be clear, a "perfect" business isn't a requirement for our process, as the very best companies are often also priced to perfection. Average businesses at amazing prices can qualify as well. However, there are times, usually after tireless exploration in forgotten or overlooked areas of the market, when the right company shows up at the right price—and the market just misses it. Looking around, it can feel like nobody else in the market is seeing the potential in the same way. Since the inception of the Fund, there have been a few cases where the investment setup was just perfect…and we were duly rewarded. We hope to find more Tavaruas (while avoiding the snakes).

Contributors/Detractors

The top three contributors for the year were Naked Wines, Pepabo, and Italian Wine Brands (IWB). Naked Wines was the largest contributor by a wide margin, more than tripling its stock price during the year. As an online wine subscription business, the company was a massive beneficiary of the stay-at-home environment. In a stroke of favorable timing, management sold off the legacy retail wine business at the end of 2019. Heading into 2020, the company held a large cash position and the ability to focus on the online business…and just in time. Naked Wines is the fastest growing business we own, growing sales by more than 80% in the first half of 2020. Unlike some companies which saw a considerable pull forward in one-time demand from the pandemic, Naked Wines is set up as a subscription model. Many new subscribers during the pandemic will continue, even as churn rises as restaurants and bars re-open in 2021. The increase in future value from this subscriber boost is sizable. It won't show up on any quantitative value screens, but Naked Wines still represents value in our book.

The investment in Pepabo followed a similar setup as Naked Wines: A reinvestment in growth obscured reported profitability. After meeting Pepabo's CEO in Tokyo in 2019, it was apparent the company's culture was much more forward-thinking than other Japanese companies. Pepabo's high margin businesses in web hosting and ecommerce tools were hidden by a new growth business called minne (think of it as the "Etsy of Japan"). COVID-19 accelerated minne's growth to new levels. Pepabo's stock fell more than -40% during the March selloff despite being an obvious beneficiary of the stay-at-home environment and enjoying the safety of an overcapitalized balance sheet. It was one of the clearest examples of "sell everything" during times of market panic which can disproportionately affect small cap stocks. Once the market realized the huge boon for Pepabo, it quickly changed course and the stock more than tripled.

IWB is a leading Italian wine producer and distributor. IWB does not own the vineyards (the most capital intensive and volatile portion of the supply chain) but instead buys grapes in bulk, oversees the blending and bottling of the wine, and then handles marketing and distribution. Distribution is accomplished under both a wholesale division to large retail chains combined with a direct consumer business via online, catalog, and telesales. IWB is run by a talented management team who have managed to cut costs (a challenge in Italy) and turn around the underperforming direct business. We like the industry for its recession-resistant nature and IWB managed to sail through Italy's difficult conditions to report a record year.

The top three detractors were Reading International, Total Energy Services (Total Energy), and Texhong Textile Group (Texhong). Unfortunately, Reading has been one of the biggest losers in the Fund's history, as movie theaters and real estate were broadsided by the pandemic. Given that most of Reading's cinemas are in Australia and New Zealand, the company is better positioned than most cinema peers. However, the business model remains dependent on the major studios releasing new movies. After much of movie content was pulled from the calendar in 2020, the 2021 slate looks promising, but the long-term outlook for theaters has never been murkier. Crucially, Reading also has a sizable real estate segment which we believe more than covers the current stock price, implying no value for the theater side. Even so, there is no escaping the damage caused by the pandemic and we have reduced our estimates of Reading's fair value. We hope the pandemic was a wake-up call to the entrenched management team and may even help spur difficult decisions to unlock the company's untapped value.

Total Energy has steadily delivered during one of the most challenging environments in the history of the oil & gas industry. The low oil and gas prices also highlighted some of the inherent flaws around horizontal drilling in North American shale and many producers are finally focused on spending within cash flow. While we do not attempt to predict oil prices, basic economics dictates that prices should respond if supply falls short of demand. Oilfield service capacity is already being forced out of the market via consolidation and bankruptcy. Through it all, Total Energy has remained solidly cash flow positive and has continued to pay down debt. We believe Total Energy remains one of the cheapest securities we own on a normalized basis, with incredible torque to the upside as the industry recovers. Meanwhile, we have great respect for the company's founder and CEO who has been aggressively buying more shares almost every week during 2020. We are happy to join him.

Texhong is one of the largest cotton yarn producers in the world via its production bases in China and Vietnam. Texhong's share price corrected sharply in 2020 as the pandemic caused disruptions in the apparel industry which rippled through the entire supply chain. Although management has reacted admirably to sell surplus inventory and control costs, Texhong was not immune to the global industry shock. Profits will be down significantly in 2020, but the company continues to execute its playbook of diversifying into downstream operations. This vertical integration will help cushion the more volatile profitability in the upstream segment. We believe this transition will eventually argue for a higher earnings multiple. Texhong is a long-time holding, but we have taken advantage of the stock price's volatile nature to scale our weighting up and down. These price swings have caused Texhong to receive mentions in multiple letters as both a top contributor and detractor, including as one of our top contributors overall in the first five years of the Fund. Meanwhile, underlying value continues to grow strongly with book value compounding at healthy double-digit rates. We hope to see it make the top contributor list again in our ten-year review.

Conclusion

We'll close with one more quote from the book Barbarian Days on why the author continued to love surfing at Tavarua, "It didn't become hideously overcrowded, effectively ruining it for everyone." A large crowd can ruin a perfect wave, just like too many participants bidding up asset prices can impact returns for everyone else. In this current investment climate, almost everything seems overcrowded. While there are pockets of absurdly priced securities with no business models, even the very best businesses can be bad investments at the wrong price. 2019 capped off the worst decade for value investing in history, and then the first half of 2020 was even worse. Since November, there has been some rotation back into the smaller, more-value oriented companies we have favored. We still believe that buying a business for less than its underlying value is a valid strategy, even if the "sell-it-to-the-next-investor-without-any-regard-for-fundamentals" crowd has been capturing the spotlight recently. Our objective remains steadfast: Produce attractive risk-adjusted returns over a full market cycle. We appreciate the AMG Yacktman Special Opportunities Fund shareholders who entrust us with their capital in pursuit of this goal.

This commentary reflects the viewpoints of the portfolio manager, Yacktman Asset Management LP, as of December 31, 2020, is not intended as a forecast or guarantee of future results, and is subject to change without notice.

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Top Ten Holdings (%)[5] (as of 12/31/20)

Holding	% of Net Assets
Naked Wines PLC	7.24
Omni Bridgeway Ltd	6.99
Colabor Group Inc Fixed 6.00% Oct 2021	6.40
Total Energy Services Inc	5.78
Trecora Resources	4.70
Ocean Wilsons Holdings Ltd	4.48
B&S Group Sarl 144A	3.74
Samsung Electronics Co Ltd Preferred	3.49
Texhong Textile Group Ltd	3.44
Italian Wine Brands SpA	3.33
TOTAL %	49.59

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.

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[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.

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