# AMG Yacktman Special Opportunities Fund - Mid-Year Update - June 30, 2018

## SEMI-ANNUAL INVESTOR LETTER

Class I | YASSX    Class Z | YASLX

YACKTMAN ASSET MANAGEMENT

**AMG Yacktman Special Opportunities Fund – Mid-Year Update – June 30, 2018**

Average Annual Returns (%)[1,2] (as of 06/30/18)

| | QTD | YTD | 1 yr | 3 yr | 5 yr | Since Incpt. |
|---|---|---|---|---|---|---|
| YASSX (Class I) | 0.34 | -0.42 | 12.80 | 13.19 | – | 13.19[3] |
| YASLX (Class Z) | 0.33 | -0.33 | 12.93 | 13.32 | – | 8.06[4] |
| MSCI All Country World Index All Cap | 0.72 | -0.17 | 11.17 | 8.36 | 9.62 | 6.42[3] |

YASSX (Class I) Expense Ratio (Gross/Net): 2.60%/2.34%
YASLX (Class Z) Expense Ratio (Gross/Net): 2.50%/2.24%

*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 ending June 30, 2018, the AMG Yacktman Special Opportunities Fund Class I (the "Fund") returned (0.42)%. The MSCI ACWI All Cap Index, returned (0.17)% during the same period. Since inception four years ago, the Fund's Z class has generated annual compound returns of 8.06% versus 6.42% for the benchmark.

Our performance was closely in line with the market over the first half of the year even as we refreshed the Fund with new ideas following two years of particularly strong performance. We are excited about the potential of the Fund's new holdings while maintaining a low turnover approach with a core of long-time positions. As shown in the table below, the Fund's quality has improved while valuation became even cheaper on both an absolute and relative basis. We believe this valuation disparity versus the market is a good indicator of the Fund's future potential.

| Financial Metrics[5] | YASLX / YASSX | MSCI ACWI All Cap Index | S&P 500® Index | Russell 2000® Index |
|---|---|---|---|---|
| Price/Earnings (P/E) | 11.38 | 17.07 | 20.91 | 19.57 |
| Price/Book (P/B) | 1.32 | 2.14 | 3.13 | 2.17 |
| Price/Cash Flow (CF) | 6.36 | 10.56 | 13.45 | 11.35 |
| Price/Sales (P/S) | 0.87 | 1.67 | 2.37 | 1.64 |
| Enterprise Value/EBIT | 7.75 | 17.32 | 18.95 | 17.09 |
| Debt to Equity | 38.1% | 86.3% | 97.7% | 75.3% |
| ROA% | 7.1% | 6.7% | 7.8% | 3.7% |

We added eleven new holdings and exited four during the first six months of the year. Even with healthy activity, we maintained our concentrated approach with the top ten holdings making up 41% of the Fund. The range of our new investments showcases the enormous advantage of having a flexible, go-anywhere approach. During the first half, we purchased two micro-caps in Japan, a Singapore conglomerate, a Thai consumer staple company, a Canadian oil & gas service business, an Italian wine merchant, a mid-cap U.S. industrial/real-estate business, a Norwegian consulting firm, and convertible bonds of a Canadian food distributor. All of these new positions meet our investment criteria.

We exited the positions that no longer met our investment criteria due to price appreciation (Tessi), acquisition (Trilogy International), or a change in our estimate of business quality or future outlook (Stallergenes Greer, Daelim Industrial). We also reduced our position in the bonds of Emeco Holdings at a premium to par value. Once the Fund's largest position, the remaining Emeco bonds will likely be refinanced in the next 18–24 months. The Fund's cash position at the end of the first half was 3.2%, with another few percent in Twenty-First Century Fox which we view as "cash-like" given the pending merger. We retain ample flexibility to react to market conditions.

## Value Investing - The Search for Hidden Value

*Won't You Be My Neighbor?*, the newly released documentary about children's television icon Fred Rogers, shows Rogers giving a commencement speech at Dartmouth College. In the speech, he describes a favorite quote from the book *The Little Prince*, which reads "L'essential est l'invisibles pour les yeux." Or in English, "What is essential is invisible to the eye."

One tenet of our approach is to look deeper into a potential investment for the essential components of value which are not always obvious from the typical hallmarks of "cheapness," like a simple price-to-earnings (P/E) or

[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 AMG Yacktman Focused Fund on June 29, 2012, and was managed by Yacktman Asset Management LP with the same investment policies as those of the predecessor Fund.
[3] Since the inception of the Fund's Class I shares on June 30, 2015.
[4] Since the inception of the Fund's Class Z shares on June 30, 2014.

[5] Source: FactSet; Weighted average metrics; as of 06/30/18. Portfolio characteristics are subject to change

price-to-book (P/B) ratio. For many market participants, if value does not show up in these ratios, the opportunity may as well be invisible.

We therefore spend a great deal of time searching for opportunities that the market is overlooking. As an example, litigation finance company Bentham IMF does not "screen" very well given the uneven nature of legal cases. Yet we believe the company has built up tremendous value in its world-class expertise and portfolio of pending cases.

Another instance of hidden value is our new position in CB Industrial Product Holding ("CBIP"), a family-run industrial company in Malaysia. CBIP's main segment designs and builds industrial mills for processing palm oil, a type of vegetable oil. CBIP's unique system boosts the extraction rate (how much oil can be squeezed out of the fresh fruit bunches) by 5–10% over conventional mills while also saving approximately 50% in employee and maintenance costs. This engineering division is a high-return, highly profitable business with a long growth runway.

Looking deeper, we think CBIP has substantial value which is not currently contributing to results despite offering significant long-term potential. In 2012, CBIP broadened out from building mills to owning an oil palm plantation. They have since planted 11.5k hectares of oil palm at great cost. New plantations tend to lose money for the first few years as it takes time for trees to mature. While this planting program initially hurt bottom-line profits, the trees continue to grow everyday, increasing their value to CBIP shareholders. Estimates off air value on a mature plantation are over USD10k+ per hectare, with some precedent M&A activity in the USD20-25k/ha range. At these higher land values, CBIP's plantation alone is worth more than the stock's entire market capitalization. The plantation should start generating cash flow next year which may make this "invisible" value easier for others to see.

To bring it back to Mr. Rogers, having a natural curiosity is a large part of both childhood and investing. Anyone who has spent time with a young child knows they are innately curious and ask questions about everything, no matter how small or boring the detail may seem. It's this same curiosity that drives us to seek answers on topics like litigation finance or palm oil milling which may shed light on a potential investment. In addition to being curious, children can be stubborn and contrarian—perhaps they would make the perfect value investor?

## Contributors / Detractors

The three top contributors to performance during the first half of 2018 were Twenty-First Century Fox ("Fox"), America's Car-Mart Inc. ("Car-Mart"), and Texhong Textile Group Ltd ("Texhong"). Late last year, the Walt Disney Company ("Disney") offered to acquire a large portion of the assets in Fox. We purchased additional shares after the merger announcement based on the belief that the market was undervaluing the portion of Fox that would remain with shareholders. A few months later, Comcast Corp. topped Disney's bid, validating the uniqueness of these assets. Disney countered with an even higher offer and looks like it will close the revised deal later this year. We reduced our position as value was unlocked by the sales process.

Both Car-Mart and Texhong have been investments in the Fund since inception. Car-Mart struggled in recent years due to fierce competition in the subprime auto loan industry. In response to (seemingly) foolish loans by competitors, Car-Mart slowed its expansion process, doubled down on improving its business practices, and allocated capital toward an aggressive share repurchase program. We applaud such buybacks when shares are materially undervalued. Since reaching a bottom in early 2016 in the low $20s, CRMT's stock has tripled, and we reduced the size of our weighting accordingly. With better execution and new dealerships opening again, we feel there is plenty of road ahead even with the stock's strong performance.

Management at Texhong continues to execute on its vision of becoming an integrated player in the clothing supply chain by expanding the company's downstream capabilities. This should help diversify the group away from yarn manufacturing into higher-value garments such as denim. Consistent with our valuation discipline, we reduced our position slightly as Texhong's stock price rallied more than 30% in a few weeks. Although trade war jitters have recently impacted the stock, we feel Texhong is well-positioned to take advantage of any weakness in its smaller competitors.

Our three largest detractors over the first half of 2018 were CBIP, Reckon Ltd, and Samsung Electronics Preferred ("Samsung"). As discussed earlier, we believe CBIP is a well-run company with a strong business and underappreciated assets. Emerging markets have been a tough space this year and CBIP's stock was caught up in the headwinds. We disagree with the market's assessment.

Reckon is an Australian company that sells accounting software to both individuals and accounting firms. The company started as a distributor of Intuit Quickbooks in the Australia/New Zealand region before expanding into a number of verticals which complicated the investment case. Management's quest to simplify the structure started with the spin-off of its document management division last year. It followed with a transformational agreement to sell Reckon's accountant division to MYOB Group Ltd. in November 2017. This was a great deal for shareholders, as Reckon was selling roughly half its business for more than the entire company was worth prior to the announcement. Unfortunately, the deal was terminated after running into trouble clearing anti-trust approval. While we are disappointed with the outcome, we feel the stock remains undervalued. Its software suite remains a sticky product with almost 100% of revenue now converted to a recurring, subscription-based model. These kinds of software businesses trade at much higher valuations than Reckon's current price.

Samsung's stock price declined during the first half of 2018 despite reporting record operating results.

While there are concerns over the semiconductor cycle, we feel the long-term outlook for computer chips is bright. Samsung's technological leadership and scale in a capital intensive industry is a sustainable competitive advantage, yet it remains one of the cheapest mega-cap companies in the world. It remains one of our largest positions.

## Concluding Thoughts

By nearly all metrics, today's stock market is expensive and investors are taking on a great deal of risk by paying such high prices. The good news is that the Fund is not the market, but rather a collection of carefully selected businesses with an emphasis on quality, inexpensive valuations, and risk management. We remain committed to our value-based approach and our performance results have warranted that resolve over the last four years. We feel the AMG Yacktman Special Opportunities Fund's flexible structure gives us the widest possible lens in our search for value—even when it may be invisible at first glance. We thank existing shareholders for their continued support.

*This commentary reflects the viewpoints of the portfolio manager, Yacktman Asset Management, L.P. as of June 30, 2018 and is not intended as a forecast or guarantee of future results, and is subject to change without notice.*

Top Ten Holdings (%)[6] (as of 06/30/18)

| Holding | % of Net Assets |
|---|---|
| Bentham IMF Ltd | 6.04 |
| Samsung Electronics Co Ltd Preferred | 4.89 |
| Computer Services Inc | 4.70 |
| Reading International Inc | 4.20 |
| Ocean Wilsons Holdings Ltd | 4.04 |
| Pardee Resources Co Inc | 3.68 |
| America's Car-Mart Inc | 3.42 |
| JAKKS Pacific Inc Fixed 4.88% Jun 2020 144A | 3.40 |
| Hargreaves Services PLC | 3.40 |
| CB Industrial Product Holding Bhd | 3.19 |
| TOTAL % | 40.96 |

## 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, 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.

[6] 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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|---|---|

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.

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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.

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