

Class N | YAFFX

Class I | YAFIX



Average Annual Returns (%)^{1,2} (as of 09/30/18)

	QTD	YTD	1 yr	3 yr	5 yr	10 yr	Since Incpt.
YAFFX (Class N)	3.29	6.96	15.64	14.93	9.92	12.83	9.72 ³
YAFIX (Class I)	3.34	7.11	15.89	15.14	10.12	–	12.26 ⁴
S&P 500 [®] Index	7.71	10.56	17.91	17.31	13.95	11.97	8.24 ³
Russell 1000 [®] Value Index ⁵	5.70	3.92	9.45	13.55	10.72	9.79	8.27 ³

YAFFX (Class N) Expense Ratio (Gross/Net): 1.27%/1.27%

YAFIX (Class I) Expense Ratio (Gross/Net): 1.10%/1.10%

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.

In the third quarter of 2018, the **AMG Yacktman Focused Fund** (the Fund) produced solid returns, appreciating 3.29% but lagging the S&P 500[®] Index's 7.71% rise. Year-to-date, the Fund appreciated 6.96% vs. the S&P 500, which is up 10.56%.

The fourth quarter has begun with increased volatility and steep market declines and should serve as a reminder that valuations and risk should always matter. We feel well positioned for a more difficult market environment with the securities we hold and the excess cash we have maintained due to the lack of attractive investments that can pass our test of providing an acceptable risk-adjusted return over time. Cash, as always, will be put to work when we find individual investment opportunities, regardless of market levels.

From the movie *A Few Good Men*:
 Colonel Jessup: You want answers?
 Lieutenant Kaffee: I think I'm entitled!
 Colonel Jessup: You want answers?!
 Lieutenant Kaffee: I want the truth!
 Colonel Jessup: You can't handle the truth!

Here's the truth as we see it

The truth is we have lived in a market where returns were largely a product of multiple expansion and momentum. These returns, while enjoyable for some, were stimulated by artificially low rates and government support through quantitative easing. And the multiple expansion often favored those who bought higher risk (high multiple) and lower quality (leveraged and or cyclical businesses), creating a potentially toxic investment outlook.

Many market participants have looked past these warning signs and favored indexing, an approach of buying ETFs or indexes, with no consideration of valuation or risk management. Many have confused the unimportant risk of underperforming an index in the short term with the critical risk of overpaying. Paying high prices typically leads to lower returns or potentially permanent capital losses, the enemy of long-term wealth creation.

An index does not take price into account when purchasing shares, but rather will pay whatever the current level is to acquire shares. While index flows have largely gone in one direction since the financial crisis, this process works in reverse when these funds need to sell. In our view, it isn't clear that active managers will have an interest in buying the shares index funds could need to sell in a stressed environment at anywhere near current prices.

Our approach focuses on risk-adjusted returns over time by selecting individual securities, not investing in the broader market. We look for investments we think can deliver results underpinned by a combination of attractive valuation, business quality, and, typically, good management. In an expensive market, we rely on our ability to find anomalies like Twenty-First Century Fox (Fox), Samsung Electronics Preferred (Samsung), and Bolloré SA (Bolloré). Such opportunities are rare, especially in expensive markets, so we build large positions when warranted so that these best ideas make an impact. Our value discipline can also lead to the unpopular decision to hold cash while waiting for a better risk/reward, but acceptance by others is not our goal; risk-adjusted returns over a market cycle is. In the absence of true bargains in expensive markets, cash and patience may be the only way to manage risk. This approach is best served when coupled with quick strikes when opportunities appear.

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 Yacktmán Focused Fund, which was reorganized into the AMG Yacktmán Focused Fund on June 29, 2012, and was managed by Yacktmán Asset Management LP with the same investment policies as those of the predecessor Fund.

³ Since the inception of the Fund's Class N shares on May 1, 1997.

⁴ Since the inception of the Fund's Class I shares on July 24, 2012.

⁵ Effective on October 1, 2018, the Fund will add the Russell 1000[®] Value Index as a secondary benchmark.

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Top Contributors

Oracle Corp (Oracle)
Procter & Gamble Co. (P&G)
Johnson & Johnson (J&J)

Top Detractors

Twenty-First Century Fox, Inc. (Fox)
Bolloré SA (Bolloré)
Bank of New York Mellon (BNY)

Contributors

During the quarter, the technology sector produced strong returns, with little regard to business results or valuation, and our holdings in Oracle, Microsoft, and Cisco participated. We think all three of these companies are well positioned and still sell at reasonable valuations.

J&J stock rebounded during the quarter along with strength in the healthcare sector. There was little of note beyond this during the quarter.

P&G's shares recovered solidly with a general rebound in the consumer staples sector. Even after the rebound, P&G and consumer staples have underperformed significantly this year due to greater competition and disruption in the sector. We recognize that the many consumer staples businesses face a more difficult future. However, we think select companies like P&G, PepsiCo, and Coca-Cola offer solid opportunities amidst the challenges. The situation is not dissimilar to our decade-long investment in Fox, which was a successful investment despite the recent headwinds faced by traditional cable content owners.

Detractors

Fox pulled back during the quarter after a bidding war between Comcast and Disney ended in Disney's favor, disappointing some who expected or hoped for another Comcast bid. The shares remain strong performers for the year, up more than 30%. Late in the quarter, Comcast acquired Fox's 39% ownership stake in Sky, resulting in more than \$15 billion in proceeds to Fox. The price was fantastic as the transaction will put Fox in a net cash position, pending the close of the Disney transaction, significantly de-risking the shares.

We think the risk/reward for Fox remains exceptional, and we expect its transaction with Disney will close in the next 6–9 months. The expected proceeds from Disney include cash of \$19 per Fox share and a similar value of Disney stock. The stock portion comes with terms that offer downside protection and potential upside participation if Disney's stock appreciates before the deal closes. One of the last remaining hurdles for the deal is non-U.S. regulatory approvals, which would typically pose no challenges, but present a small risk in the current tense trade environment. Given that Fox still trades at a large discount to the deal price, and considering the value of remaining assets, we feel we are compensated well for taking this uncertainty.

Bolloré, a nearly 200-year-old French conglomerate, is run by Vincent Bolloré, one of the premier capital allocators of the last few decades. Bolloré's two main components of value are a significant port and logistics business throughout Africa and ownership of roughly 24% of Vivendi, a French media conglomerate. Vivendi's most important asset is Universal

Music Group, the U.S.-based music business that controls about a third of the music catalog, which has become extremely valuable because of streaming platforms. We think the port and logistics business and the Vivendi ownership stake are each worth more than Bolloré's current equity valuation.

BNY shares declined due to pressure on fees in its asset management and servicing businesses. The company continues to be well positioned as the largest custody bank in the world.

Samsung Position Increase

After trimming back our Samsung weighting in 2017 and early 2018, we took advantage of recent price declines to increase our exposure during the third quarter. We believe the shares are incredibly inexpensive, and the low valuation provides exceptional risk/reward despite some short-term concerns about the semiconductor business.

In our opinion, Samsung's current valuation implies no value at all for its dynamic random-access memory (DRAM) and NAND memory (flash) businesses. Samsung's other businesses—including phone, display, consumer electronics, automotive, and foundry—plus the value of its significant excess cash and investments lead to a value for the memory business around zero despite our expectation of \$40+ billion in pre-tax memory profits in 2018. We think Samsung's memory businesses are well positioned for growth over time as demand increases due to long-term tailwinds from virtual reality, autonomous driving, and big data. While the memory market has experienced vicious cycles in the past, we think the industry has changed significantly for the better, especially in DRAM where three competitors control more than 90% of production and uses for the product have diversified. DRAM sales used to be dominated by PC DRAM sales, but today, mobile and server DRAM far exceed sales to PC manufacturers.

Conclusion

While many were celebrating new market highs, we were reminded of another Jack Nicholson quote, from *As Good as It Gets*: "What if this is as good as it gets?" For nearly a decade, U.S. stocks have risen sharply with the market increasing more than four-fold from the 2009 low. In recent years, many have ignored the challenges posed by high valuations, rising rates, trade wars, and geopolitical turmoil, thinking good times would continue in the future.

If this is as good as it gets, investors need a different approach than indexing. If this is as good as it gets for the market (and to be clear, we never attempt to predict this, but rather just pose the question), we believe the focus should return to the attributes of individual security selection. We feel this may be the only path to deliver solid returns while managing risk without a tailwind from a rising market fueled by a passive "risk-blind" approach. During the decade ending December 31, 2009, a period which encompassed the 2000 market peak, the Fund increased by 205.69% due

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to a focus on individual security selection, while the S&P 500 Index declined by 9.10%.⁶

We are happy with the results we achieved for the third quarter and year-to-date. We have started the fourth quarter well, amid the market pullback, and are pleased to see increased volatility and price declines which may translate into attractive new investment opportunities. We feel that the Fund is well positioned for a more difficult environment, with a significant amount of assets in high quality businesses, significantly discounted shares, and cash. Whatever the future holds, we will continue to be patient, diligent, and objective as we manage the AMG Yacktman Focused Fund.

The views expressed represent the opinions of Yacktman Asset Management LP, as of October 1, 2018, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

Top Ten Holdings (%)⁷ (as of 09/30/18)

Holding	% of Net Assets
Samsung Electronics Co Ltd Preferred	11.24
Twenty-First Century Fox Inc, Class B	10.73
Procter & Gamble Co	10.12
PepsiCo Inc	7.63
Oracle Corp	4.86
Johnson & Johnson	4.75
Coca-Cola Co	4.59
Microsoft Corp	3.20
Bolllore SA	2.10
Cisco Systems Inc	1.98
TOTAL %	61.20

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") may be subject to greater levels of interest rate, credit, and liquidity risk than investments in higher rated securities. These securities are considered predominantly speculative with respect to the issuer's continuing ability to make principal and interest payments. The issuers of the Fund's holdings may be involved in bankruptcy proceedings, reorganizations, or financial restructurings, and are not as strong financially as higher-rated issuers.

The Fund may invest in derivatives such as options and futures; the complexity and rapidly changing structure of derivatives markets may increase the possibility of market losses.

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.

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.

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.

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.

A short-term redemption fee of 2% will be charged on shares held for less than 60 days.

The S&P 500 Index is 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 1000[®] Value Index is a market capitalization-weighted index of value-oriented stocks that measures the performance of those Russell 1000[®] companies with lower price-to-book ratios and lower forecasted growth values.

⁶ Cumulative returns based on January 1, 2000–December 31, 2009. Annualized returns for the Fund and the S&P 500 Index are 11.82% and -0.95% respectively.

⁷ 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.

Q3 | 2018

AMG Yacktman Focused Fund

COMMENTARY

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

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

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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