AMG Managers Fairpointe Mid Cap Fund

COMMENTARY

ASSET CLASS | MID CAP

Class N | CHTTX   Class I | ABMIX   Class Z | ABIZX

FAIRPOINTE CAPITAL

Average Annual Returns (%)[1] (as of 12/31/17)

	QTD	YTD	1 yr	3 yr	5 yr	10 yr	Since Incpt.
CHTTX (Class N)	5.32	11.52	11.52	7.43	14.48	9.59	12.44[2]
ABMIX (Class I)	5.38	11.80	11.80	7.70	14.77	9.87	10.45[3]
ABIZX (Class Z)	5.39	—	—	—	—	—	5.39[4]
S&P MidCap 400® Index	6.25	16.24	16.24	11.14	15.01	9.97	12.27[2]
Russell MidCap® Index	6.07	18.52	18.52	9.58	14.96	9.11	11.27[2]

CHTTX (Class N) Expense Ratio (Net/Gross)[5]: 1.13%/1.12%
ABMIX (Class I) Expense Ratio (Net/Gross)[4]: 0.88%/0.87%
ABIZX (Class Z) Expense Ratio (Net/Gross)[4]: 0.80%/0.79%

The performance data shown represents past performance. Past performance is not a performance data quoted. 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.

The **AMG Managers Fairpointe Mid Cap Fund** (Class N) returned 5.32% for the fourth quarter of 2017, compared with the 6.25% return for its primary benchmark, the S&P MidCap 400® Index. For the 12 months ending December 31, 2017, the Fund returned 11.52%, trailing the 16.24% return for its benchmark.

Fourth Quarter Review

For all of 2017, growth outperformed value by a significant margin as the market extended the rally for a ninth year. In mid-caps, for example, the Russell Midcap® Growth Index returned 25.27% versus 13.34% for the Russell Midcap® Value Index. This represented a headwind for the Fund, which, in the current high valuation environment, is positioned toward value. The Fund's current value bias is primarily a relative phenomenon, reflecting the fact that the broader market is reaching ever higher levels, continuing to reward growth stocks, which, at their current lofty multiples, do not meet our long-standing valuation criteria. We take the long view and believe our valuation approach will generate strong long-term performance, which we have accomplished over the history of the Fund. Since November, the Fund has outperformed the S&P 500® Index and the mid-cap category as the value of individual companies has been recognized by investors.

Of our forty-five holdings, eleven stocks increased more than 10%, including three stocks that rose more than 30% during the fourth quarter. Two stocks declined more than 10%. For the year, we had a significant number of stocks in the Fund with positive returns, with 22 stocks up more than 10%, including 8 stocks up more than 40%. Ten stocks were down more than 10% for the year.

The top five contributors to performance in the fourth quarter were: Time Inc. (TIME), Akamai Technologies, Inc. (AKAM), Cree, Inc. (CREE), Teradata Corporation (TDC) and Domtar Corporation (UFS). We trimmed positions in these holdings.

Time, the leading U.S. consumer magazine company, announced an agreement to be acquired by Meredith Corporation (MDP) through a cash tender at $18.50 per share. We would have preferred a cash plus stock offer, to benefit from the investment Time made in the digital side of its business. We view Meredith as a good fit for the Time properties.

Akamai Technologies has a network of internet servers located worldwide to provide content delivery and cloud infrastructure services to its customers. After an activist acquired the stock, the company hired an investment banker to review strategic options.

Cree is a leading supplier of light-emitting diodes (LEDs) for lighting-related and semiconductor products. The stock is up on expectations that the new CEO can return the company to growth. New management is reviewing strategy, addressing execution issues and cutting costs. The company is also benefiting from growing demand for their silicon carbide components, which are used in electric vehicles (EVs). These products aid in extending the range of EVs and allowing faster charging times, higher operating temperatures and reduced power loss.

Detractors from fourth quarter performance include: Office Depot, Inc. (ODP), The New York Times Company (NYT), Stericycle, Inc. (SRCL), Itron, Inc. (ITRI) and McDermott International, Inc. (MDR). We selectively added to some of these positions during the quarter.

Office Depot operates an office products and services company. A new CEO has been executing the long-term strategy of closing unprofitable stores and enhancing their strength in the fragmented business-to-business market. A shortfall in quarterly revenue caused doubt as to the company's ability to meet the stated guidance. In early October, the company announced the acquisition of CompuCom, a computer services company. Management plans to add the availability of computer services through the retail system to serve small and mid-sized businesses. We

[1] Returns for periods less than one year are not annualized.
[2] Since the inception of the Fund's Class N shares on September 19, 1994.
[3] Since the inception of the Fund's Class I shares on July 6, 2004.
[4] Since the inception of the Fund's Class Z on September 29, 2017.
[5] The Fund's Investment Manager has contractually agreed, through at least October 1, 2018, 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.

believe becoming a more service-oriented company enhances the longer-term growth outlook.

The New York Times Company, a global media organization, lagged in the quarter but was a top contributor for the full year, up over 40%. The company saw growth in the quarter with revenue up 6%, adjusted operating profit up, and net new digital-only subscriptions up by 154,000, bringing total paid digital-only subscriptions close to 2.5 million, while print advertising continued to decline. Total subscriptions (digital news, crossword, and print home delivery) were 3.5 million at the end of the quarter.

Stericycle, Inc. provides disposal services for medical and hazardous waste and sensitive document destruction. The company saw pricing pressure from increased competition in certain segments of its business in 2017. During the third quarter, the company initiated a comprehensive multi-year business transformation plan to improve long-term operational and financial performance. Throughout 2018, we expect increased cost cutting, planning related to implementation of an ERP platform and some restructuring at the company. This company's business is unique and our longer-term outlook for Stericycle remains positive.

We eliminated our position in Transocean (RIG), an offshore contract drilling services company. While the company made significant strides in reducing its fleet and associated costs during the energy downturn, the outlook for the offshore deep-water environment remains weak. However, we added to our energy-related positions in Chicago Bridge & Iron and McDermott after both stocks declined in late December following the takeover announcement of Chicago Bridge & Iron by McDermott. We believe the merger represents a combination of two excellent product portfolios under a strong management team. Since the beginning of 2018, both stocks have moved up significantly.

Perspective and Outlook

The equity market has been supported by a strong economic backdrop and positive earnings growth even in the face of higher valuations. Domestic unemployment has continued to register new lows and the global economy is gaining strength. A favorable outlook for companies with more than 50% of their revenues coming from outside the U.S. is expected to continue due to stronger global growth and a weaker Dollar. Tax reform passed into law in the U.S., reducing the tax rate for domestic businesses and, marginally, for individuals. The reduction in the corporate tax rate from 35% to 21% should favor smaller cap stocks whose earnings are more domestically based. Expectations for inflation and less accommodative monetary policies and a move toward protectionism may play a larger role in 2018 as the economic recovery matures. These factors could weigh on economic growth prospects and growth stocks in particular.

A stronger global economy and earnings growth are currently supporting valuations for the overall market, but pockets of overvaluation and undervaluation exist and will correct over time. We plan to take advantage of opportunities that might arise as expectations are tested during the current earnings season. In the meantime, we remain focused on keeping the Fund attractively valued. The Fund's 2018 P/E multiple is 16.4x and remains below the S&P 400® Index at 17.9X, the Russell Midcap® Index at 17.6x and the S&P 500 Index at 17.8x.[6] The Fund's current price-to-revenue is near its all-time low at 0.9x, versus the S&P 400 Index at 1.4x, the Russell Midcap® Index at 1.7x and the S&P 500 Index at 2.2x.[7] This favorable valuation has resulted in merger and acquisition activity for the Fund's holdings. As mentioned above, in the fourth quarter Time agreed to be acquired by Meredith Corp. and McDermott and Chicago Bridge & Iron announced a merger. We also see Bunge as a potential acquisition target based on the discussions they had with Glencore International, and more recently Archer Daniels Midland (ADM) expressed interest, setting up a possible bidding war with Glencore, according to the Wall Street Journal. We see the Fund as attractively valued with good fundamentals.

Thank you for your continued interest and support.

Thyra E. Zerhusen, Chief Investment Officer

Marie L. Lorden, Portfolio Manager

Mary L. Pierson, Portfolio Manager

Brian M. Washkowiak, CFA, Portfolio Manager

The views expressed represent the opinions of Fairpointe Capital LLC as of December 31, 2017, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

Top Ten Holdings (%)[8] (as of 12/31/17)

Holding	% of Net Assets
Akamai Technologies Inc	3.69
Time Inc	3.48
Juniper Networks Inc	3.36
Teradata Corp	3.36
Cree Inc	3.31
Hormel Foods Corp	3.23
Domtar Corp	3.15
New York Times Co, Class A	3.05
TEGNA Inc	2.96
Stericycle Inc	2.91
TOTAL %	32.50

[6] FactSet.
[7] FactSet.
[8] 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.

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 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 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 S&P MidCap 400 Index, more commonly known as the S&P 400, is a stock market index from S&P Dow Jones Indices. The index serves as a barometer for the U.S. mid-cap equities sector and is the most widely followed mid-cap index in existence.

The Russell Midcap® Index measures performance of the 800 smallest companies (31% of total capitalization) in the Russell 1000® Index, with weighted average market capitalization of approximately $6.7 billion, median capitalization of $3.6 billion, and market capitalization of the largest company $13.7 billion.

The Russell Midcap® Growth Index measures the performance of those Russell Midcap companies with higher price/book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000® Growth Index.

The Russell Midcap® Value Index measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values. The stocks are also members of the Russell 1000® Value Index

The Standard & Poor's 500, often abbreviated as the S&P 500, or just "the S&P", is an American stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The S&P 500 Index components and their weightings are determined by S&P Dow Jones Indices.

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