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 04/30/18)

	QTD	YTD	1 yr	3 yr	5 yr	10 yr	Since Incpt.
CHTTX (Class N)	-1.28	-5.74	0.11	3.93	10.02	9.18	11.98[2]
ABMIX (Class I)	-1.24	-5.66	0.37	4.19	10.30	9.46	9.72[3]
ABIZX (Class Z)	-1.24	-5.62	—	—	—	—	-0.53[4]
S&P MidCap 400® Index	-0.26	-1.03	9.77	9.41	11.77	10.05	12.04[2]
Russell MidCap® Index	-0.15	-0.61	11.17	8.28	11.77	9.48	11.08[2]

CHTTX (Class N) Expense Ratio (Net/Gross): 1.14%/1.14%
ABMIX (Class I) Expense Ratio (Net/Gross): 0.89%/0.89%
ABIZX (Class Z) Expense Ratio (Net/Gross): 0.81%/0.81%

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.

Intra-Quarter Review

The Fund started 2018 with strong January performance (+5.6%) which was broad-based and led by merger and acquisition news. For the year to date through April 30, 2018, stock-specific factors related to earnings reporting season and a changing merger and acquisition story have impacted performance. We believe stocks of several companies overreacted to short-term fixable issues and were penalized as investors ignored significant long-term opportunity.

The top three contributors to performance were New York Times Company (NYT), Gerdau (GGB), and Akamai Technologies (AKAM). It is important to note that each of these companies had been among our top detractors in the past and we used the periods of weakness and changes in valuation to add to positions.

The three largest detractors to year-to-date performance were Patterson Companies, Inc. (PDCO), Lionsgate Entertainment Corp. (LGF.A/B), and Cooper Tire (CTB).

Patterson is the leading distributor of animal health products and the number two distributor of dental products in North America. The company reported disappointing dental revenue (and improvements in animal health) due primarily to customer service and sales force disruption issues related to a new technology system implementation. After meeting with the new CEO, we are confident he has identified the company-specific problems and solutions required. We expect results to improve in coming quarters. We believe the stock offers compelling value at 12.4x earnings, a five-year low, compared to its five-year average multiple of 17.5x. The company's current dividend yield is 4.6%.[5]

Lionsgate is a leading provider of motion picture and television content. The company owns a valuable library of over 16,000 titles including The Hunger Games, the Twilight series and Mad Men, which generates significant revenue. On its most recent earnings call, management shifted some new film releases from fiscal 2019 into 2020, pushing out revenue expectations. Lionsgate and other studios delayed releases to avoid competing with Disney's strong summer 2018 movie slate. In addition, the regulatory uncertainty surrounding future acquisitions in media, specifically the AT&T and Time Warner merger, has been a short-term cloud over the sector. We believe Lionsgate's fundamentals remain intact, supported by TV production strength and direct Starz subscriber growth outside of traditional cable bundles. The stock is trading at 1.2x price-to-revenue which is at the low end of its two-year range.[6]

Cooper Tire & Rubber is a leading global producer of replacement tires. The stock has been pressured by rising raw material costs and tepid replacement tire demand. Management has been increasing the company's exposure to higher margin tires (larger sizes, higher speed ratings and newer technology) and programs with original equipment manufacturers (OEMs). Earnings will improve in coming quarters due to higher tire prices and a rebound in replacement demand. We view Cooper as a potential takeover candidate in a consolidating industry.

Fund holding McDermott acquired another Fund holding, Chicago Bridge and Iron, in an all stock merger which created performance volatility this year. Both stocks increased significantly in January (34% and 29%, respectively), then declined in February and March due to concerns regarding deal financing and shareholder approval. Then a few weeks prior to the expected deal closing, Subsea7 made a hostile bid for McDermott to try to scuttle the transaction. The merger of McDermott and Chicago Bridge was approved in early May. We are positive on the long-term earnings power of the combined company. McDermott has rebounded post the closing of the merger.

[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] Factset
[6] Factset

AMG Funds

Bunge Ltd. is a global processor of agricultural products, and a long-time holding of Fairpointe. On January 19, The Wall Street Journal reported that Archer Daniels Midland Company (ADM) made a takeover approach to Bunge causing a spike in the stock (18% in January). ADM's offer followed a similar overture by Glencore PLC, setting up a potential bidding war for Bunge. Since January, global trade tensions have clouded the prospects for a merger. Whether a merger occurs or not, Bunge has valuable assets including its operations in Brazil. Management is working to reduce costs, and a spinoff of the company's sugar operation is underway which will lead to higher profit margins.

Our investment process remains the same. Despite our recent results, we believe the Fund should perform well over time and are confident that there is significant value to be unlocked. We have several holdings with potential catalysts, including possible merger and acquisition candidates—Bunge, Juniper, Mattel, and Akamai—as well as spinoffs such as FMC's lithium business and Bunge's sugar business. The Fund is positioned for earnings growth and is trading at 15.5x projected 2018 earnings compared to 16.4x for the S&P 400® Index,[7] which we view as a very attractive discount.

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 April 30, 2018, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

[7] Factset

Top Ten Holdings (%)[8] (as of 03/31/18)

Holding	% of Net Assets
Hormel Foods Corp	3.42
Akamai Technologies Inc	3.36
Cree Inc	3.28
Teradata Corp	3.25
New York Times Co, Class A	3.21
Juniper Networks Inc	3.19
Mattel Inc	3.16
Stericycle Inc	2.91
TEGNA Inc	2.85
Gentex Corp	2.81
TOTAL %	31.44

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.

[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.

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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