Q3 | 2018 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 09/30/18)

	QTD	YTD	1 yr	3 yr	5 yr	10 yr	Since Incpt.
CHTTX (Class N)	1.37	-2.51	2.68	12.33	7.70	11.58	11.91[2]
ABMIX (Class I)	1.40	-2.35	2.90	12.59	7.96	11.86	9.69[3]
ABIZX (Class Z)	1.43	-2.26	3.01	—	—	—	3.00[4]
S&P MidCap 400® Index	3.86	7.49	14.21	15.68	11.91	12.49	12.21[2]
Russell MidCap® Index	5.00	7.46	13.98	14.52	11.65	12.31	11.24[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.

The **AMG Managers Fairpointe Mid Cap Fund** (Class N) returned 1.40% for the third quarter of 2018, compared with the 3.86% return for its primary benchmark, the S&P MidCap 400® Index. For the 12 months ending September 30, 2018, the Fund returned 2.90%, trailing the 14.21% return for its benchmark.

Overview

Market volatility continued in the third quarter, as concerns about trade wars and the global economic outlook persisted. Overall, however, U.S. equities had a strong quarter, driven by robust earnings reports, tax cuts, and share buybacks. We are pleased to report that the Fund generated positive returns for the quarter, but disappointed that we trailed the S&P MidCap 400 Index benchmark.

Market Conditions Lining Up to Favor Value

Investor sentiment and market trends have favored growth and momentum-oriented equities relative to value stocks for the past few years. The fund flows into passive investments, index funds, and ETFs have amplified the performance divergence between growth and value stocks. Several macroeconomic factors, however, have recently indicated a possible shift from growth to value. A more restrictive monetary policy, rising inflation, and continued threats of a global trade war could produce a broader slowdown, which would likely create difficulty for growth equities and in turn favor companies with stronger long-term fundamentals, like those in the Fund.

In addition, investors have begun to recognize the long-term earnings potential of many of our holdings. Our top performer for the past quarter, Unisys, is one example. Up 58.1%, Unisys has enjoyed strong returns because of management's sustained focus on long-term strategic goals. The recent increase was the result of improved services revenue and earnings in the second quarter. Unisys reported a backlog of $4.6 billion, up 27%. In early September, the stock was added to the S&P SmallCap 600® Index, which boosted the stock's returns even further.

Arconic, the second largest contributor during the past quarter, was up 29.8%. Despite its strong quarterly returns, Arconic still appears to have untapped value. While equity markets may not have fully recognized the value in Arconic, private equity investors have expressed interest in the company, which we view as a positive sign.

Another strong performer was Office Depot, which returned 26.8% during the third quarter and was our third best contributor. Its returns are largely due to some insider buying and the company's shift toward a more services-oriented model, including its purchase of IT specialist CompuCom in late 2017. Services now comprise approximately 16% of Office Depot's total sales, and we expect this business to contribute even more to the company's profits going forward.

In our second quarter commentary, we discussed the uncertainty created by the U.S. administration's tariffs. Fears of a global trade war continued into the third quarter and seem likely to persist for the foreseeable future, creating further uncertainty in the markets and increasing the possibility of inflation. Many companies have indicated that they intend to increase prices in order to pass on the higher costs from tariffs, raw materials, and labor to their customers.

Some companies had been protected from—and were even helped by—the initial round of tariffs, but even they are now having to grapple with the longer-term effects. This was a significant factor in Whirlpool's quarter, the Fund's largest detractor, down 18.1%. Whirlpool's share of U.S. sales was protected by the first round of tariffs in 2017, which blocked the importing of cheap appliances that had flooded the market. As the tariffs have expanded, however, Whirlpool has had to pay more for steel and aluminum to make its products. We have confidence that the company's strong brand will enable it to pass these costs through, albeit with a two-quarter lag.

[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] Reuters

Our second largest detractor for the quarter was Panamanian airline Copa Holdings, down 14.7%. The company cited several economic factors for its decline; most notable among them was higher fuel costs. Other factors included currency issues in Brazil and Argentina—two of the airline's most important markets. A disruption of service in Venezuela has resolved, and the stock has subsequently rebounded. We believe the company has an attractive valuation and favorable long-term prospects because it is the dominant Latin American airline.

Stericycle, down 10.1%, was the third largest detractor. The company is a leading provider of medical waste disposal and secure document destruction. While the company's business transformation and ERP implementation are in the early stages, management is acting with a sense of urgency that we believe will lead to long-term appreciation in the stock.

Nuance Communications and TEGNA also contributed to performance in the quarter, while New York Times Company and McDermott International detracted.

Positioning Changes

This quarter, we added Owens Corning and ManpowerGroup. In our assessment, Owens Corning is well positioned to raise its prices to offset higher operating costs. We acquired Owens Corning stock after the market overreacted to what we consider short-term operational issues. This is our second opportunity to own the company, and we know it and the management team well. Even if housing starts slow due to higher interest rates, Owens Corning should remain relatively protected because only 12% of its revenues come from new home construction. We took advantage of a sharp decline in Manpower's stock price. The stock is suffering from uncertainty surrounding changes to the French labor subsidies that will be implemented in 2019. Based on our past ownership of Manpower, we expect the company will be able to offset declines in subsidies. In addition, the strong labor environment in the U.S. will help the company's revenues and margin profile.

Perspective and Outlook

The consensus long-term earnings growth rate for holding in the Fund has improved to 12.0%, according to Zacks, which compares favorably to both the 11.5% rate for the S&P MidCap 400 Index and the 11.8% for the Russell MidCap® Index. This stronger earnings outlook is not yet reflected in the valuation of the Fund, which continues to have a significant discount to that of the market with a P/E of 13.3x 2019 projected earnings compared to 15.7x for both the S&P MidCap 400 Index and the Russell MidCap® Index.[5]

We have not changed our philosophy or process. Our stock purchases and sales remain guided by a fundamental bottom-up approach with a careful eye on valuation and long-term perspective. We continue to believe that attractive valuations, low debt levels, geographic diversification, and sustained earnings will be recognized by the market.

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

Top Ten Holdings (%)[6] (as of 09/30/18)

Holding	% of Net Assets
Juniper Networks Inc	4.15
McDermott International Inc	4.11
TEGNA Inc	3.96
Mattel Inc	3.32
Hormel Foods Corp	3.15
Teradata Corp	3.03
New York Times Co, Class A	2.73
Stericycle Inc	2.72
Northern Trust Corp	2.65
Cooper Tire & Rubber Co	2.61
TOTAL %	32.43

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

[5] FactSet

[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.

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 S&P SmallCap 600® measures the small-cap segment of the U.S. equity market.

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.

AMG Funds are distributed by AMG Distributors, Inc., member FINRA/SIPC.