

AMG Yacktman Focused N YAFFX

Adapting, not compromising.

Morningstar's Take YAFFX

Morningstar Rating ★★★★★

Morningstar Analyst Rating Silver

Morningstar Pillars

Process	+	Positive
Performance	+	Positive
People	+	Positive
Parent	○	Neutral
Price	-	Negative

Role In Portfolio

Supporting

Fund Performance YAFFX

Year	Total Return (%)	+/- Category
YTD	-10.90	4.61
2019	19.13	-5.91
2018	2.88	11.41
2017	20.03	4.09
2016	11.29	-3.52

Data through 5-31-20

9-13-19 | by Kevin McDevitt

AMG Yacktman Focused continues to make the best of a difficult environment. It retains its Morningstar Analyst Rating of Silver.

Not compromising its standards has meant holding a lot of cash for this fund. Comanagers Stephen Yacktman and Jason Subotky are not strict value investors, but they are very valuation-conscious. If they can't find enough attractive investment opportunities, they will let cash build. That has been the trend since September 2011, when cash fell to 3.9% of assets. It declined from 11.8% that June as Yacktman and Subotky put cash to work following the midyear correction. Since then the trend has been mostly upward as the market has rallied and price multiples have increased. As a result, cash stood at 24.3% of assets as of June 2019.

That big cash stake helped the fund weather 2018's fourth-quarter correction far better than most peers. It fell just 3.8% versus the Russell 1000 Value Index's 11.7% decline. What's more, the fund hasn't been penalized nearly as much as one might think for having such a big chunk of assets on the sidelines. True, the fund's 11.0% annualized return since 2011 did lag the index by 93 basis points through August 2019, but the trade-off was more than favorable on a risk-adjusted basis thanks to its excellent risk management. Its Sharpe ratio--a measure of risk-adjusted results--was 1.13, outpacing the index's 0.99. Moreover, the fund captured only 60.5% of the index's downside during that stretch while it captured 76.7% of the index's gains.

Neither has the team been standing still, despite cash being greater than 20% over the past three years. Rich valuations have sent Yacktman and Subotky overseas in search of opportunities, where price multiples are generally lower. The fund's foreign equity stake has grown to 23.0% of assets from just 2.1% in March 2015. Top holding Samsung has been in the portfolio since June 2017, but the team added German specialty chemicals company Brenntag in the first quarter.

The greatest risk is opportunity cost, but the fund has delivered on a risk-adjusted basis.

Process Pillar + Positive | Kevin McDevitt 09/13/2019

This concentrated fund sometimes gets the high-quality label, but price and valuation are what matter most. That said, the team's preference for companies with strong free cash flows, reasonable debt, high returns on capital, and modest cyclical makes high-quality companies the default. However, if the price is right, management will buy more-cyclical names, often coming out of a recession or a bear market. The team thinks of stocks as junior bonds and uses the projected total return--normalized free cash flow yield plus

growth--from the equity of AAA rated companies as a reference point.

Once a stock is in the portfolio, the team is reluctant to sell because high-quality companies tend to compound capital at attractive rates. This leads to low annual turnover, typically less than 20%. On the other hand, if the team cannot find cheap stocks, it will let cash build to 20% or more of assets. To be sure, though, this is a residual effect of the team's bottom-up process. This patience and discipline earn the fund a Positive Process rating.

The fund is a more concentrated version of sibling AMG Yacktman YACKX. This portfolio has just 20-30 holdings and a greater percentage of its assets in its top 10. With its more concentrated portfolio, the fund allows management to invest more heavily in its favorite companies.

This is one of the most concentrated large-value offerings. The fund has more than 50% of its assets in its top 10 holdings, more than twice that of the S&P 500. Plus, the fund sticks to just a few sectors given the team's preference for companies with competitive advantages. This has at times led to big stakes in consumer-oriented and technology shares.

Concentration always brings risks, but they are offset somewhat by other factors. As price multiples have risen during the ongoing bull market, the team has gotten more defensive. Since peaking at nearly 31.0% of the equity portfolio in March 2009, economically sensitive discretionary stocks dropped to just 6.0% by June 2019. Meanwhile, the team has maintained a big overweighting in recession-resistant staples such as Procter & Gamble PG, which claimed 21.2% of the June 2019 portfolio. Finally, management has kept cash high, hitting 24.3% in June, although this was down from 30.2% 12 months prior.

Rich valuations have sent the management team overseas in search of opportunities, where price multiples are generally lower. The fund's foreign equity stake has grown to 23.0% of assets from just 2.1% in March 2015. Top holding Samsung has been in the portfolio since June 2017, but the team added German specialty chemicals company Brenntag in the first quarter.

Performance Pillar Positive | Kevin McDevitt 09/13/2019

This fund's long-term returns merit a Positive Performance rating. Since Stephen Yacktman became comanager in 2002, the fund's 11.0% annualized return through August 2019 beat the Russell 1000 Value Index's 8.8%.

But, as with most highly differentiated funds, this one has gone through dry spells. Indeed, it has been left for dead more than once, including during the bull markets of the late-1990s and mid-2000s, and again in 2012-15. While the managers are not deep contrarians, the concentrated portfolio and sizable cash stakes can leave it out of step with the broader market, especially in the latter stages of bull markets when the team often gets defensive. But this defensiveness led to outstanding relative results during the 2000-02 and 2008 bear markets and during the corrections in 2011 and 2018. The fund fell just 3.8% during 2018's fourth quarter versus the Russell 1000 Value Index's 11.7% drop.

Since its inception, the fund trailed sibling AMG Yacktman YACKX by less than 10 basis points annualized through August 2019. This fund, which is a more concentrated version of that strategy, has consistently earned higher returns before fees. Over the past 10 years, its gross annualized return is 0.6 percentage points better. This indicates that management's high-conviction bets outperform other holdings, but much of that extra return is absorbed by this fund's higher fees.

People Pillar Positive | Kevin McDevitt 09/13/2019

This fund ensured continuity when its advisor, Yacktman Asset Management, sold itself to Affiliated Managers Group AMG in 2012. That deal locked in the fund's three managers, as each

signed a 10-year employment contract as part of the agreement. The team also retained full investment authority, so there wouldn't be any change in the fund's strategy.

That's encouraging considering Don Yacktman, Stephen Yacktman, and Jason Subotky's long-term investment success. Don Yacktman officially stepped down as a comanager on May 1, 2016, but remains as an advisor. This move reflects the fact that his son Stephen and Subotky have managed the fund day-to-day for the past several years. Those two do not have an independent record of their own, but they have ample experience. This earns the fund a Positive People rating. Stephen has worked on the fund since 1997 and has been a comanager since year-end 2002. Subotky has been a comanager since year-end 2009 and has been with the firm since 2001. Both have more than \$1 million invested in the fund. The team strengthened its bench when it hired Adam Sues in August 2013. After less than a year with the firm, Sues was named sole manager of AMG Yacktman Special Opportunities YASLX in June 2014. They hired Brandt Dusthimer as an analyst in April 2015. He has a strong tech background, after having worked for five years as a software engineer.

Parent Pillar Neutral | 05/08/2019

AMG has some attractive features that led to a Parent rating upgrade in March 2019 to Positive from Neutral. However, a recently announced CEO change reignites a previous concern about the team's stability, leading to the return of a Neutral Parent rating.

In March 2014, Jeff Cerutti became CEO of AMG Funds, a role that was created for him and that was eliminated following his departure in June 2018. In March 2018, Nate Dalton succeeded longtime Affiliated Managers Group CEO Sean Healey, following his diagnosis of ALS. After only 11 months in the role and as the public company has recorded weaker earnings results, Dalton will be succeeded by current CFO and president Jay Horgen.

Some positives remain. AMG has maintained its attractiveness as a partner by continuing to allow its affiliates considerable autonomy in both

investment decisions as well as business decisions. AMG can accommodate different needs of its partners, but its core function has endured. It continues to acquire equity interests in boutique asset managers, often acting as a facilitator in the transfer of wealth for a boutique's founders. It has historically partnered with some of the industry's stronger boutiques, such as AQR (which operates most independently of AMG) and Yacktman (which uses virtually all of AMG's services), as well as Tweedy, Browne (which is somewhere in between).

Price Pillar Negative | Kevin McDevitt 09/13/2019

Overall, this fund's Morningstar Fee Level is High, and it earns a Negative Price rating. The retail shares' 1.27% prospectus expense ratio is 39 basis points greater than the large-cap no-load median. AMG introduced a cheaper Institutional share class in 2012, but its 1.09% prospectus expense ratio is 37 basis points greater than the large-cap institutional median. Its expense ratio is also 34 basis points greater than AMG Yacktman's YACKX. As a result, much of the performance advantage for this fund over its sibling is absorbed by higher fees.

Average annual returns (%)^{1,2} (as of 03/31/20)

	Inception	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Incpt
YAFFX (Class N)	05/01/97	-21.04	-21.04	-13.48	2.31	4.79	8.12	8.58
YAFIX (Class I)	07/24/12	-21.00	-21.00	-13.33	2.49	4.98	-	8.38
S&P 500 [®] Index	-	-19.60	-19.60	-6.98	5.10	6.73	10.53	7.26 ³
Russell 1000 [®] Value Index	-	-26.73	-26.73	-17.17	-2.18	1.90	7.67	6.77 ³

Expense Ratios (gross/net): Class N 1.27% / 1.27%, Class I 1.09% / 1.09%

Top Ten holdings (%)⁴

Holding	% of Net Assets
Samsung Electronics Co Ltd Preferred	12.85
Bollore SA	4.76
Fox Corp, Class B	4.26
Continental AG	3.15
Johnson & Johnson	3.14
Microsoft Corp	3.14
PepsiCo Inc	3.10
Walt Disney Co	2.99
Booking Holdings Inc	2.73
Procter & Gamble Co	2.55
TOTAL %	42.67

¹Returns for periods less than one year are not annualized.

²The performance information shown for periods prior to June 29, 2012, is that of the predecessor to the Fund, The Yackman Focused Fund, which was reorganized into the Fund on June 29, 2012, and was managed by Yackman Asset Management LP with the same investment objective and substantially similar investment policies as those of the Fund.

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

⁴Mention 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 performance data shown represents past performance. Past performance is not a guarantee of future results. Current performance may be lower or higher than the 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.

Disclosure

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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 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.

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 1000® Value Index is a market capitalization weighted index that measures the performance of those Russell 1000® companies with lower price-to-book ratios and lower forecasted growth values.

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

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