

AMG Yacktman Focused N YAFFX

A strategy that delivers for patient investors.

Morningstar's Take YAFFX

Morningstar Rating ★★★★★

Morningstar Analyst Rating Silver

Morningstar Pillars

Process	High
Performance	—
People	Above Average
Parent	Average
Price	—

Role In Portfolio

Core

Fund Performance

Year	Total Return (%)	+/- Category
YTD	4.56	-0.21
2020	17.25	14.34
2019	19.13	-5.91
2018	2.88	11.41
2017	20.03	4.09

Data through 2-28-21

11-04-20 | by Adam Sabban

AMG Yacktman Focused's willingness to stick to its principles has paid off over the long haul, retaining its Morningstar Analyst Rating of Silver.

This strategy is half equity fund, half absolute-return hedge fund. It leverages the creativity of its managers to find undervalued investments in domestic equities but can venture into debt and foreign securities as well. It is a more-concentrated version of Silver-rated sibling AMG Yacktman Fund YACKX, but with more leeway to invest in foreign securities and use derivatives.

Managers Stephen Yacktman and Jason Subotky like to own stable businesses for the long term, but also feast on volatility by picking up cyclical businesses when they trade at rock-bottom prices. The managers demand a large margin of safety, though, and will hold cash if they can't find enough attractive opportunities. That's been the case for

the better part of the last decade as markets pushed higher and valuations expanded.

The first-quarter 2020 bear market finally brought opportunity for the managers who picked up harder-hit small-and mid-cap securities like Qurate Retail QRTEA. Such opportunistic trades and an initial cash buffer helped the fund outpace the Russell 1000 Value index by 7.1 percentage points through July 2020. The drawdown serves as a reminder of the strategy's benefits when markets become volatile. The managers similarly pounced on deeply discounted securities during the 2008 financial crisis, leading to a whopping 62.8% return in 2009. They repeated the same playbook on a smaller scale in 2011. Buying when times are at their most uncertain isn't easy, but the managers have proven capable of navigating such scenarios well.

High valuations in the U.S. market have pushed the strategy's focus overseas. Korean tech giant Samsung remains the strategy's largest bet at 13.4% of assets as of June 30. Still, most of the strategy remains U.S.-based.

This strategy can go through dry stretches, but it has a long history of strong risk-adjusted returns, making it a great option for patient investors.

Process Pillar High | Adam Sabban 09/03/2020

This strategy's unique, flexible, and disciplined process earns a High Process rating. The strategy sometimes gets the high-quality label, but price and valuation are what matter most. The team's preference for companies with strong free cash flows, reasonable debt, high returns on capital, and modest cyclicality makes high-quality companies the default. However, if the price is right, management will buy more cyclical names, often coming out of a recession and a bear market. The

team thinks of stocks as junior bonds and compares their free-cash flow yields with those of AAA rated corporates. Once a stock is in the portfolio, the team is reluctant to sell because high-quality companies tend to compound capital at attractive rates. On the other hand, if the team cannot find cheap stocks to buy, it will let cash build to 20% or more of assets.

Capacity isn't an issue given the portfolio's low turnover and current focus on liquid large-cap stocks. But the strategy has grown too big to invest meaningfully in small and mid-caps as it did in the late 1990s. Back then, it loaded up on small and mid-caps given their compelling valuations versus large caps. While it isn't as nimble as before, the managers have other avenues to pursue opportunities. They'll pick up bonds on occasion if they offer equity-like returns and have increasingly invested overseas where valuations are lower than in the U.S.

This strategy is more concentrated than most peers. It has regularly held 50%-60% of assets in its top 10 holdings. Plus, it sticks to just a few sectors given the team's preference for companies with competitive advantages that aren't very economically sensitive. (Though the team will buy cyclicals if the price is right.) This has led to big stakes in stable consumer-oriented and technology stocks. Longtime holdings include Procter & Gamble PG, PepsiCo PEP, and Microsoft MSFT. Consumer-oriented stocks represented nearly a third of the equity portfolio versus about 18% of the S&P 500 as of June 2020.

While the strategy's stake in small- and mid-cap companies has come down over the years, it spiked in 2019 and into 2020. Such stocks represented 43% of equity holdings as of June, up from roughly 9% just a year earlier. The managers have found cheaper opportunities in this segment as smaller companies underperformed their large-cap counterparts. The fund picked up 14 new equity

holdings in 2020's bear market, many of which carried market caps under \$5 billion, well below the fund's \$28.1 billion average.

The fund also continues to find more opportunities overseas due to cheaper valuations. Its stake in non-U.S. companies reached a new high at about 36% of assets as of June.

Performance Pillar | Adam Sabban 09/03/2020

This strategy's tendency to outperform during periods of market volatility necessitates a broader view of performance. High cash stakes--particularly from 2013 through 2019--depressed results relative to the S&P 500 and Russell 1000 Value category benchmark. The fund's five-year annualized return as of December 2019 trailed the former by 2.5 percentage points while just edging the Russell 1000 Value's. But after 2020's coronavirus bear market, the fund's advantage expanded: it outperformed the value benchmark by 3.6 percentage points annualized over the trailing five-year period, while falling in the top quartile of peers.

Indeed, even five-year periods are too short a timeframe to cast judgement on this strategy. While it outperformed the Russell 1000 Value in 58% of rolling five-year periods since Stephen Yacktman's tenure began in December 2002, it came ahead 91% of the time on a rolling 10-year basis--a time period which better captures a full market cycle.

Given its conservative leanings and persistent cash stake, its record shines even brighter on a risk-adjusted basis. The strategy's Sortino ratio, a measure of performance relative to downside volatility, comes in well ahead of the Russell 1000 Value Index's and even the growthier S&P 500's since Stephen Yacktman's 2002 start.

People Pillar ● Above Average | Adam Sabban 09/03/2020

A creative duo leading a small, yet capable team earns an Above Average People rating.

Stephen Yacktman and Jason Subotky have been the leads on this strategy well before Don

Yacktman officially stepped down in 2016. Those two do not have an independent record of their own, but they have ample experience. 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 joined the firm in 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 also hired Brandt Dusthimer as an analyst in April 2015. Yacktman credits Sues with helping them find more opportunities in foreign stocks, while Dusthimer, a former software engineer, has developed advanced screens for the group.

While market conditions haven't always been favorable for its style, the team's skill and commitment to conservative investment principles has led to superior risk-adjusted returns relative to peers and benchmarks over the long term.

Parent Pillar ● Average | Linda Abu Mushrefova 11/04/2020

AMG Funds has some strong affiliates, but a lack of consistency in its offerings and recent lineup changes damp conviction. It maintains an Average Parent rating.

While AMG's stronger affiliates have held up relatively well, net outflows have caused the firm and its affiliates to liquidate or merge subscale offerings, including AMG GW&K US Small Cap Growth and AMG River Road Dividend All Cap Value. In another instance, affiliate Chicago Equity Partners shuttered its business entirely, spurring a subadvisor and name change on AMG GW&K Global Allocation. Recent challenges in AMG's quantitative offerings have contributed most substantially to outflows, with shops such as AQR suffering the most.

Historically, AMG has grown by acquisition, but the firm has seen a dry spell in new partnerships, and it has thus recently closed far more offerings than it has introduced. Leadership at the firm plans to

change that, though, and it has made some smaller investments more recently. It acquired a minority equity interest in Comvest Partners, a middle-market private equity and credit investment firm, in 2020. It also made an investment in startup Inclusive Capital Partners (a firm with an environmental, social, and governance focus), founded by ValueAct (another affiliate) founder Jeff Ubben. AMG's recent investments reflect its continued focus on alternative strategies and newer emphasis on ESG.

Price Pillar | Adam Sabban 09/03/2020

It's critical to evaluate expenses, as they come directly out of returns. The share class on this report levies a fee that ranks in its Morningstar category's costliest quintile. Such high fees stack the odds heavily against investors. However, based on our assessment of the fund's People, Process and Parent pillars in the context of these fees, we still think this share class will be able to deliver positive alpha relative to the category benchmark index, explaining its Morningstar Analyst Rating of Silver.

Average annual returns (%)^{1,2,3} (as of 03/31/21)

	Inception	Q1	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Incpt
YAFFX (Class N)	05/01/97	7.86	7.86	60.17	16.04	14.68	12.00	10.36
YAFIX (Class I)	07/24/12	7.83	7.83	60.41	16.26	14.87	-	13.38
Russell 1000 [®] Value Index	-	11.26	11.26	56.09	10.96	11.74	10.99	8.48 ⁴
S&P 500 [®] Index	-	6.17	6.17	56.35	16.78	16.29	13.91	8.96 ⁴

Expense Ratios (gross/net): Class N 1.30% / 1.29%, Class I 1.11% / 1.11%

Top ten holdings (%)⁴

Holding	% of Net Assets
Samsung Electronics Co Ltd Preferred	10.39
Bollore SA	6.02
Microsoft Corp	3.70
Brenntag SE	3.40
Associated British Foods PLC	2.96
Alphabet Inc, Class C	2.79
Sysco Corp	2.66
KT&G Corp	2.61
Fox Corp, Class B	2.53
News Corp, Class A	2.26
TOTAL %	39.32

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 Yacktman Focused Fund, which was reorganized into the Fund on June 29, 2012, and was managed by Yacktman Asset Management LP with the same investment objective and substantially similar investment policies as those of the Fund.

³Effective June 30, 2020, the primary and secondary benchmarks were changed. The Russell 1000[®] Value Index became the primary benchmark and S&P 500 Index the secondary benchmark; previously the S&P 500 Index was the primary benchmark and the Russell 1000[®] Value Index was the secondary benchmark.

⁴Since the inception of the Fund's Class N shares of the Fund's Class N shares on May 1, 1997.

⁵Mention 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

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 visit amgfunds.com for a free Prospectus. Read it carefully before investing or sending money.

Past performance is no guarantee of future results.

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.

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.

Not FDIC Insured | May Lose Value | Not Bank Guaranteed

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For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its three-, five-, and ten-year (if applicable) Morningstar Rating metrics. Morningstar Rating is for the share class indicated only (see ticker); other share classes may have different performance characteristics. The Ranking may reflect the waiver of all or a portion of the fund's fees. Without such waiver, the Rankings may have been lower.

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The Manager Research Group evaluates funds based on five key pillars, which are process, performance, people, parent, and price. The Manager Research Group uses this five-pillar evaluation to determine how they believe funds are likely to perform relative to a benchmark over the long term on a risk adjusted basis. They consider quantitative and qualitative factors in their research. For actively managed strategies, people and process each receive a 45% weighting in their analysis, while parent receives a 10% weighting. For passive strategies, process receives an 80% weighting, while people and parent each receive a 10% weighting. For both active and passive strategies, performance has no explicit weight as it is incorporated into the analysis of people and process; price at the share-class level (where applicable) is directly subtracted from an expected gross alpha estimate derived from the analysis of the other pillars. The impact of the weighted pillar scores for people, process and parent on the final Analyst Rating is further modified by a measure of the dispersion of historical alphas among relevant peers. For certain peer groups where standard benchmarking is not applicable, primarily peer groups of funds using alternative investment strategies, the modification by alpha dispersion is not used.

The Analyst Rating scale is Gold, Silver, Bronze, Neutral, and Negative. For active funds, a Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's expectation that an active fund will be able to deliver positive alpha net of fees relative to the standard benchmark index assigned to the Morningstar category. The level of the rating relates to the level of expected positive net alpha relative to Morningstar category peers for active funds. For passive funds, a Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's expectation that a fund will be able to deliver a higher alpha net of fees than the lesser of the relevant Morningstar category median or 0. The level of the rating relates to the level of expected net alpha relative to Morningstar category peers for passive funds. For certain peer groups where standard benchmarking is not applicable, primarily peer groups of funds using alternative investment strategies, a Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's expectation that a fund will deliver a weighted pillar score above a predetermined threshold within its peer group. Analyst Ratings ultimately reflect the Manager Research Group's overall assessment, are overseen by an Analyst Rating Committee, and are continuously monitored and reevaluated at least every 14 months.

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