Q3 | 2019

AMG Renaissance Large Cap Growth Fund

COMMENTARY | ASSET CLASS | LARGE CAP

Class N | MRLTX Class I | MRLSX Class Z | MRLIX

Renaissance® Investment Management

Average Annual Returns (%)[1] (as of 09/30/19)

	QTD	YTD	1 yr	3 yr	5 yr	10 yr	Since Incpt.[2]
MRLTX (Class N)	2.27	24.52	7.62	14.24	10.55	12.55	13.36
MRLSX (Class I)	2.41	24.76	7.96	14.56	10.89	12.89	13.70
MRLIX (Class Z)	2.44	24.83	7.99	14.68	11.04	13.06	13.87
Russell 1000® Growth Index	1.49	23.30	3.71	16.89	13.39	14.94	15.78

MRLTX (Class N) Expense Ratio (Gross/Net)[3]: 1.12%/1.00%
MRLSX (Class I) Expense Ratio (Gross/Net)[3]: 0.86%/0.74%
MRLIX (Class Z) Expense Ratio (Gross/Net)[3]: 0.78%/0.66%

The performance data shown represents past performance. Past performance is no 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. From time to time the advisor has waived fees or reimbursed expenses, which may have resulted in higher returns.

The **AMG Renaissance Large Cap Growth Fund** (Class N) returned 2.27% for the third quarter of 2019, outpacing the 1.49% return for its primary benchmark, the Russell 1000® Growth Index. For the 12-month period ending September 30, 2019, the Fund returned 7.62%, compared with a 3.71% return for the Index.

Market Overview

Stocks shrugged off a spike in oil prices, the continuing U.S./China dispute about trade issues, and movement toward the impeachment of President Trump, and posted a slight gain for the third quarter. Every sector in the S&P 500® Index gained for the quarter except for energy, which declined slightly in spite of the rise in oil prices. The strongest gains came from the communication services, consumer staples, and technology sectors. Yields on 10-year Treasury bonds fell as low as 1.46% in early September, marking their lowest yield since 2016, before slightly rebounding late in the quarter.

The U.S. Federal Reserve (Fed) lowered its benchmark interest rate by -0.25% in July, its first reduction in interest rates in 11 years. The Fed reduced it another 0.25% (to a range of 1.75% to 2%) at its last meeting in September and expressed an openness to more easing. Fed officials apparently believe that rate cuts will help the economy weather economic uncertainty caused largely by the trade war with China. Fed Chairman Jerome Powell noted that the Fed will "act as needed" with regard to future rate cuts.

While fears about a possible recession continue to dominate headlines, many data points suggest that the economy continues to grind forward in a slow growth mode. It is true that the impact of tariffs and trade disputes, as well as continued softness in many overseas economies, has reduced some near-term forecasts for economic growth. However, the most recent release of the Conference Board's Leading Economic Index (LEI) was unchanged in the month of August, with measures of housing permits and credit offsetting weakness in the manufacturing sector. The Conference Board stated, "The recent trends in the LEI are consistent with a slow but still expanding economy, which has been primarily driven by strong consumer spending and robust job growth." The most recent releases of economic data have actually been slightly ahead of consensus expectations.

We continue to believe that market fundamentals remain relatively attractive, although good stock selection is likely to be even more critical going forward. We continue to favor selected companies in the technology, health care, and industrials sectors.

Performance and Positioning Review

The Fund outperformed the Russell 1000® Growth benchmark for the third quarter. Technology was the top sector contributor to Index performance, as mega-cap technology stocks such as Apple and Microsoft continue to drive a meaningful portion of the market's returns. Meanwhile, health care was the worst-performing sector, with Democratic presidential candidates pushing for universal health care and both the president and Congress targeting high drug prices. Our focus on high-quality companies and stocks that trade at compelling valuations has been beneficial in this environment.

A new position added in the technology sector was Akamai Technologies (AKAM). Akamai operates the world's largest content delivery network (CDN), which sits at the edge of local data networks to facilitate faster downloading speeds for consumer applications such as streaming video. The company is the pioneer of this network technology and has scale advantages over smaller competitors. We believe revenue growth can reaccelerate as media companies such as Disney, Comcast, and AT&T launch new video streaming offerings later this year to compete with Netflix. All of these new video offerings will likely require the use of CDNs in order to provide the best customer experience.

Conversely, we sold our position in Xilinx (XLNX) primarily on a deterioration in fundamental factors. Our original investment thesis for Xilinx has come to fruition as the company has benefited from the initial launch of 5th-generation wireless networks. Unfortunately, we see several fundamental headwinds, as their largest

[1] Returns for periods less than one year are not annualized.
[2] Since the inception of the Fund on June 3, 2009.
[3] The Fund's Investment Manager has contractually agreed, through at least May 1, 2020, 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.

Chinese customer is subject to technology export restrictions, forcing Xilinx to suspend this year's guidance. Also, as this customer looks for alternative providers, Xilinx could potentially lose future sales. With the stock trading at peak valuation multiples, we exited the position for better opportunities elsewhere.

Outlook

While investor attention normally tends to focus on unusual events in the equity markets, the fixed income markets in recent months have been the place for truly unusual behavior. Yields on government bonds have fallen to unprecedented levels across a number of major countries, with an estimated $17 trillion of government and corporate bonds around the world trading at negative yields. U.S. bond yields, while at historically low levels as well, still offer a positive return, and foreign investors buying U.S. bonds in search of yield have contributed to low long-term interest rates for U.S. investors and corporations.

As bond yields have fallen, the yield on stocks (the S&P 500) now is roughly the same as the yield on 10-year Treasury bonds, which is a historically unusual event. With only a few exceptions, bond yields have exceeded stock yields for most of the past 60+ years. Prior to the mid-1950s, however, stock yields typically exceeded bond yields, as investors focused on returns coming only from current income rather than growth in earnings and dividends. As to what today's yield relationship suggests, we would argue that stocks on a long-term basis are priced very attractively relative to bonds, even if future rates of earnings growth are somewhat below average. In the short term, the market volatility of stocks is higher than that of bonds, but for the long-term investor, stocks are likely to provide a better return.

There was significant volatility in terms of stock market leadership late in the quarter. Stocks with the characteristic of strong price momentum (typically stocks that have performed the best in terms of return over trailing periods) have been market leaders for most of the past several years, while stocks with the characteristic of good value (typically stocks that trade at low multiples of earnings and cash flow) have been laggards. In September this reversed, with value stocks outperforming.

In our portfolio discipline, we utilize both momentum and value characteristics as part of our stock scoring process. In recent years the valuation component of our discipline has not been additive to returns, but over the 28-year history of our process there have been a number of sustained periods where a focus on valuation has had a meaningfully positive impact on performance. We are encouraged that valuation factors were helpful to returns recently, and we will continue to utilize them as part of our diversified scoring model.

As a final comment on the economy, the Purchasing Managers Index (PMI) published by the Institute for Supply Management dropped below the 50 level at the end of August, suggesting a contracting economy (levels above 50 suggest an expanding economy). Perhaps of more importance to investors is whether the PMI level has any significance with regard to future stock market returns. We examined monthly PMI values from January 1948 to present and identified 37 months when the PMI moved from above 50 in a month to below 50 the following month. For each of these 37 months we then calculated the return of the S&P 500 over the following 12 months. On average, the S&P 500 gained 13.9% over the next 12 months after the PMI crossed the 50 level on the downside and posted positive returns in over 78% of the next 12-month periods.

In fact, when the PMI is below 50, returns for stocks over the following 12 months have actually been higher than when the PMI is above 50. The average return of the S&P 500 over the 12 months following a PMI below 50 was 17.2%, well above the average of 10.6% following a PMI above 50.

The outcome of today's economic and political uncertainty remains to be seen, but we believe that a portfolio of reasonably priced growth stocks will likely continue to provide good long-term investment returns.

The views expressed represent the opinions of The Renaissance Group LLC, as of September 30, 2019, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

Top Ten Holdings (%)[4] (as of 09/30/19)

Holding	% of Net Assets
Apple Inc	2.11
Lockheed Martin Corp	2.04
KLA Corp	2.03
Microsoft Corp	2.02
Dollar General Corp	2.02
Home Depot Inc	2.02
L3Harris Technologies Inc	1.99
Sysco Corp	1.98
Ross Stores Inc	1.97
CDW Corp	1.95
TOTAL %	20.13

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 invests in growth stocks, which may be more sensitive to market movements because their prices tend to reflect future investor expectations

[4] 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.

rather than just current profits. Growth stocks may underperform value stocks during given periods.

The Fund invests in large-capitalization companies that may underperform other stock funds (such as funds that focus on small- and medium-capitalization companies) when stocks of large-capitalization companies are out of favor.

Price/earnings (or P/E) ratio is a comparison of the company's closing stock price and its trailing 12-month earnings per share.

Companies that are in similar businesses may be similarly affected by particular economic or market events; to the extent the Fund has substantial holdings within a particular sector, the risks associated with that sector increase.

The Russell 1000® Growth Index is a market capitalization weighted index that measures the performance of those Russell 1000® companies with higher price-to-book ratio and higher forecasted growth values.

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.

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.