AMG River Road Small-Mid Cap Value Fund

COMMENTARY

ASSET CLASS | SMALL-MID CAP

Class N | ARSMX Class I | ARIMX Class Z | ARSZX

Average Annual Returns (%)[1] (as of 09/30/21)

	Q3	YTD	1 yr	3 yr	5 yr	10 yr	Since Incpt.
ARSMX (Class N)	-2.97	13.79	41.01	8.52	12.74	13.17	7.78[2]
ARIMX (Class I)	-2.88	14.00	41.39	8.81	13.02	13.46	7.82[3]
ARSZX (Class Z)	-2.78	14.12	41.60	8.92	-	-	10.24[4]
Russell 2500® Value Index	-2.07	20.14	54.38	8.87	10.49	13.35	7.52[2]
Russell 2000® Value Index	-2.98	22.92	63.92	8.58	11.03	13.22	7.03[2]

ARSMX (Class N) Expense Ratio (Gross/Net): 1.32%/1.32%
ARIMX (Class I) Expense Ratio (Gross/Net): 1.06%/1.06%
ARSZX (Class Z) Expense Ratio (Gross/Net): 1.01%/1.01%

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 River Road Small-Mid Cap Value Fund** (Class N) returned -2.97% for the third quarter of 2021, trailing the -2.07% return for the Russell 2500® Value Index. For the 12 months ended September 30, 2021, the Fund returned 41.01%, compared with the Index return of 54.38%.

Market Review

Scaling a wall of worry...

If bull markets climb a wall of worry, investors had their climbing harnesses on during the historically volatile third quarter. The cascade of negative news included a resurgence in COVID-19 due to the Delta variant, declining earnings and economic growth expectations, a messy exit from Afghanistan, a regulatory crackdown in China, a potential debt default in Washington, widespread shortages of labor and materials, and a steep rise in inflation. Despite these headlines, the S&P 500® did remarkably well for the quarter, returning 0.58%. Strong returns in July (+2.38%) and August (+3.04%) were largely offset by a sharp decline in September (-4.65%), which saw the Index's first -5% correction (peak-to-trough) in 11 months and the end of a seven-month winning streak. Year to date, the bellwether index has returned 15.92%.

...or stumbling down a slippery slope

Conversely, small and small-mid cap stocks suffered their first losing quarter since Q1 2020 with the Russell 2000® and 2500® indices returning -4.36% and -2.68%, respectively. It was the second consecutive quarter the smaller-cap indices lagged the Russell 1000®, which returned 0.21%. The Russell 2000® (and to a lesser extent the Russell 2500®) has tracked both the cyclical "reopening trade" and, more recently, yields on the 10-year Treasury. Consequently, the small cap indices sharply underperformed their large cap sibling in July and August but outperformed in September as the outlook for COVID-19 improved and interest rates rose. Following Q3's lackluster performance, the Russell 2000® and 2500® are now trailing the Russell 1000® year to date, returning 12.41% and 13.83%, respectively, versus 15.19%.

The two faces of small cap

In 2021, the less popular S&P SmallCap 600® Index has provided a very different perspective on the relative performance of small caps, returning 20.05%. While the S&P SmallCap 600's outperformance versus the Russell 2000® year to date is broad-based, with 10 of 11 sectors having a positive total effect, an outsized portion of the difference is due to the Russell's larger weighting in the lagging biotech industry (-249 bps). Negative stock selection across the health care (-167 bps) and consumer discretionary (-114 bps) sectors further contributed to the relative underperformance.

The performance gap among style indices, where S&P is considered a much weaker player than Russell, varies widely. For example, the S&P SmallCap 600® Value Index is up 25.34% year to date compared to 22.92% for the Russell 2000®

[1] Returns for periods less than one year are not annualized.
[2] Since the inception of the Fund's Class N shares on March 29, 2007.
[3] Since the inception of the Fund's Class I shares on June 28, 2007.
[4] Since the inception of the Fund's Class Z shares on September 29, 2017.

Value. Conversely, the S&P SmallCap 600® Growth Index is up 14.75% year to date compared to a paltry 2.82% for the Russell 2000® Growth—a gap of +1,193 bps!

Outperformance by value near 20-year high

Style returns were, once again, mixed across market caps. Among small and small-mid caps, value beat growth with the Russell 2500® Value Index returning -2.07% versus -3.53% for the Russell 2500® Growth. Consequently, the rolling 12-month difference between the two indices is now 22%—the largest lead for small-mid cap value since July 2002! Within the Russell 2500® Value Index, energy (+5.67%) and financials (+1.83%) posted the highest total returns, while consumer discretionary (-8.16%) and communication services (-8.09%) posted the lowest.

Low beta and high quality outperformed in Q3

Both the lowest beta and highest ROE stocks outperformed within the benchmark index during Q3, supporting (theoretically) a favorable backdrop for the Portfolio. According to small cap analyst Steven DeSanctis at Jefferies, the lowest (fifth quintile) beta stocks in the Russell 2500® Value benchmark returned -0.62% for Q3 versus -3.06% for the highest (first quintile) beta. Additionally, the highest ROE stocks in the benchmark returned -1.76% versus -7.82% for the lowest. According to our internal analysis using Style Analytics, the factor category with the largest contribution to relative performance in Q3 was valuation, including (in order of contribution) earnings yield, cash flow yield, and free cash flow yield—all of which the Portfolio is overweight versus the benchmark. Oddly, the Portfolio's significant overweight to quality factors such as ROE and ROIC resulted in a negative contribution. Any number of factors can cause this divergence, including calculation methodology and intra-quarter trends. Unfortunately, the precise source of the difference is difficult to pinpoint, which highlights the challenges with factor analysis.

Small and small-mid cap managers performed well in Q3

Both active small cap value and small-mid cap value managers had a strong showing in Q3 with 78% and 77% beating their benchmark, respectively. This compares to an impressive 91% of small-mid cap growth managers and 59% of small-mid cap core. Surprisingly, the year-to-date performance between small cap value and small-mid cap value varies greatly, with 58% of small cap value outperforming (the highest figure since 2017) versus just 12% of small-mid cap value. This is due, in part, to the relatively small number of active small-mid cap value funds in the universe, none of which are ahead of the benchmark over the last year.

Performance Review

The key drivers of the Fund's relative performance in Q3 included negative stock selection in, and an underweight allocation to, financials. The negative allocation effect within financials related to the Fund's underweight position in banks and thrifts & mortgage finance. Underperformance was partially offset by positive stock selection in consumer discretionary.

What worked...

The top contributing holding in the Fund during Q3 was Murphy USA Inc. (MUSA: +26%), one of the largest convenience store chains in the United States. MUSA achieved impressive Q2 results in the face of challenging market conditions and a very difficult year-over-year comparison. Adjusted EBITDA fell just -2.5% year over year and was +164% versus Q2 2019 as recovering fuel volumes, improving merchandise contribution, and the QuickChek acquisition more than offset staffing and logistics headwinds and supply chain fuel shortages caused by a cyberattack on the Colonial Pipeline. Most notably, Q2 total fuel margin of 28.2¢ remained well above the historical average despite rising wholesale fuel costs, which typically reduce fuel margins. This favorable trend began during the pandemic and has persisted as smaller convenience store operators have offset lower in-store traffic with higher fuel prices. As a low-cost operator, MUSA uses its low-price leadership to drive fuel volumes and typically gains market share in periods of high gas prices. We maintained the position as it still trades at a discount to our assessed value.

Another top contributor during the quarter was Premier Inc. (PINC: +12%), a healthcare GPO and data analytics provider. PINC reported Q4 2021 revenue and EBITDA above consensus estimates while fiscal year 2022 guidance exceeded expectations. Quarterly revenue increased 40% year over year mainly due to PPE sales. EBITDA fell -3% year over year as PPE sales were low margin and PINC lapped the August 2020 contract simplification, which lowered net admin fees in exchange for extending contracts five to seven years. The dividend was raised 5% and the board approved a new $250 million repurchase authorization (~5% of shares), which will likely be executed in the near term. We maintained the position.

Another positive contributing holding in Q3 was Air Transport Services Group Inc. (ATSG: +11%), the premier lessor of Boeing 767 freighter aircraft essential to support e-commerce. Having underperformed in 1H 2021 on apparent investor confusion from the accounting treatment of federal pandemic relief grants, shares partially rebounded when ATSG's Q2 2021 earnings report showed that its core freight leasing business is strong and gaining momentum. Although management maintained 2021 EBITDA guidance, operational developments during the quarter suggest this outlook could be conservative. Management disclosed it has secured 67 conversion slots for 767 aircraft through 2025 (versus current fleet size of 120) with a strong pipeline of potential new leases with favorable unit economics. This should result in a highly predictable and sustainable free cash flow stream to fund future share repurchases (once grant restrictions are lifted in Q4 2022) and long-range investments to meet secular e-commerce demand. We maintained the position.

What didn't work...

The largest negative contributing holding in Q3 was Avaya Holdings Corp. (AVYA: -26%), a provider of communications networks for companies in on-premise, cloud, and hybrid formats. Shares lagged despite reporting fiscal Q3 2021 EBITDA that exceeded consensus, plus management slightly increased full-year EBITDA guidance. Revenues grew for the fifth straight quarter on the strength of the Avaya Cloud Office product, recently launched in partnership with RingCentral. This product generates monthly subscription revenue per user, which dramatically increases the predictability of the business. However, as subscriptions cycle through the customer base it is initially a cash flow headwind. Under the previous perpetual license model, AVYA would recognize a large amount of revenue in year one and customers would pay the full amount in year one. Under a three-year subscription contract, AVYA recognizes revenue and collects cash ratably over three years, which creates a cash flow headwind in year one, then a tailwind in years two and three. Since AVYA is in the early stages of transitioning toward subscriptions, cash flow from operations is only estimated to be 1% of sales in fiscal 2021 but is then expected to rise to 10–13% of sales in the second half of fiscal 2023. We maintained the position during the quarter.

Another bottom contributor during the quarter was GoHealth Inc. (GOCO: - 55%), a distribution platform primarily selling Medicare Advantage plans to senior citizens. Shares dropped sharply as Q2 EBITDA declined -47% year over year and full-year EBITDA guidance was cut -14% largely due to rising agent costs. In 2021 GOCO is on target to increase agent count ~50% amid a historically tight labor market, which has been more expensive than expected. Graduation rates from the company's training program fell from over 80% to roughly 50%. COVID-19 necessitated remote training, which has proven to be less effective than in-person training. Additionally, some trainees were recruited away to other industries before completing the six-week training course. GOCO paid many trainees who never transitioned to productive, revenue-generating agents. The company is in the process of restructuring incentives for trainees and will pay bonuses at key milestones. Additionally, the pace of hiring after this annual enrollment period should slow, which will allow GOCO to optimize its agent base rather than recruit massive numbers of new agents in potentially challenging labor markets. Management strongly believes this is a transitory issue and that unit economics will be attractive going forward. Nonetheless, we trimmed the position in accordance with our sell discipline.

Another poor performer was NCR Corp. (NCR: -15%), a provider of transaction software, services, and hardware largely to banks, retailers, restaurants, and the hospitality industry. The stock fell despite 2021 EBITDA and free cash flow guidance above RRAM expectations. Results for Q2 2021 were in line with consensus with organic recurring revenue growth of 11% year over year and EBITDA growth of 40% year over year on mix shift toward higher margin software and services, aggressive cost cutting, and a partial quarter of contribution from the recent Cardtronics acquisition. There could be skepticism surrounding the Cardtronics deal, which pushed pro-forma leverage slightly above 4x. However, NCR steadily progressed toward its goals of generating 80% of sales from software and services, 60% of revenues recurring, with 20% EBITDA margins. Those metrics were 74%, 55%, and 17% in Q2 2021 yet NCR finished the quarter trading at only 7.4x RRAM 2022e EBITDA with a free cash flow yield of 11%. We maintained the position.

Portfolio positioning...

Investment activity was low for the quarter, with just three new positions established and three eliminated. The new positions were payments software company ACI Worldwide Inc. (ACIW, $3.8 billion, 2.5 conviction), private health insurance platform eHealth Inc. (EHTH, $1.1 billion, 4.0), and government solutions provider PAE Inc. (PAE, $623 million, 3.0).

All eliminated positions were due to unrealized losses. Exited positions were (convictions at time of sale are in parenthesis): Nielsen Holdings PLC (NLSM, 3.5), PBF Energy Inc. (Cl A) (PBF, 4.0), and US Ecology Inc. (ECOL, 3.5).

As far as strategic trades, activity in Q3 was once again light with just six positions increased (net) and six decreased (net). The two largest increases (conviction noted in parenthesis) were Alight Inc. (ALIT, 3.0) and Axalta Coating Systems Ltd. (Cl A) (AXTA, 2.5). The two largest net decreases were BJ's Wholesale Club Holdings Inc. (BJ, 2.5) and Atkore Inc. (ATKR, 3.0). Both stocks were trimmed due to either approaching or achieving their assessed valuations. As of September 30, the Fund held 60 positions. Cash in the Fund was 3.4% versus 3.8% at the end of Q2.

New purchase...

The largest new position added during the quarter was ACI Worldwide Inc. (ACIW). ACIW provides payments software and services to banks (~75% of sales), retailers (~15%), and payment processors (~10%). The company's software delivers an end-to-end payment system that supports any payment type (card, wire, ACH, P2P), device (phone, tablet, computer), or channel (store, ATM, e-commerce) globally. ACIW is based in Miami and has a history dating back to 1975 when it created software to process ATM transactions. Odilon Almeida (59) has been CEO since March 2020. He had a 17-year career at Western Union, and eventually rose to lead the Global Money Transfer business. He left WU in June 2019 and had a brief stint at PE firm Advent International.

Barriers to entry result from ACI's strong global reputation (18 of top 20 banks in the world are ACI clients), long-standing relationships, strict regulatory compliance requirements, and more than $1.6 billion in R&D spending since 2008. ACI's core payment switch is tightly integrated for card/ATM transactions, which creates meaningful switching costs as displacing ACI risks disruption/downtime of client payment networks, which would result in higher chances of fraud and an inability to process transactions. Thus, client renewal rates are over 95%. Additionally, ACIW recently completed a significant cloud infrastructure investment cycle, which means new cloud revenue should generate very high incremental margins. 75% of revenues are recurring and come from cloud subscriptions and recurring maintenance, and this percentage should keep growing as the company pivots away from lumpy, one-time license deals making the business more stable and predictable.

New CEO Almeida has been a solid operator for ACI by cutting organizational layers, reducing its real estate footprint, creating an improved incentive structure for its salesforce, and driving these cost savings into high-growth areas for the company (real-time payments, global merchants, and emerging markets). Almeida plans to boost margins and organic revenue growth and has activist investor Starboard Value, which owns 7.6% of ACI and has two board seats, monitoring his progress. The company is still under strategic review, which could result in ACI being a takeover target. There have been many deals in the payments space over the last few years, with Nexi's acquisition of European competitor Nets for ~20x EBITDA in November 2020 being the most relevant comparison. ACIW's stock ran up above $40/share in February 2021 on mergers and acquisition speculation, which provided us the opportunity to exit our previous position at our assessed value. As the M&A-fueled fervor dissipated, the stock pulled back into the low $30s, allowing us to re-establish a position.

In terms of capital allocation, share buybacks and tuck-in M&A should be the primary use of ACIW's strong free cash flow generation. The company repurchased one million shares for ~$39 million in Q2 2021. Net debt to trailing 12-month EBITDA is 2.8x and management expects to finish the year at 2.3x. As leverage falls below the company's 2.5x target, we expect buybacks to accelerate.

The primary risk is if the company fails to drive organic revenue growth. The transition from license to cloud naturally dampers revenue growth, but there is a risk large license contracts are delayed or lost. Additionally, ACIW could struggle to gain traction with new fintechs, which are expected to be a source of client growth.

Using a 14.0x multiple on 2022e EBITDA less net debt, ACIW was trading at a 22% discount to our assessed value and had a conviction of 2.5 at the time of initial purchase. The company is followed by River Road Associate Portfolio Manager Todd D. Mayberry, CFA.

Outlook

We believe the 'great rotation' remains intact, it simply isolated during the Delta surge

Despite poor performance by small and small-mid caps in Q3, little has changed in our outlook. We continue to believe high-quality smaller cap value stocks are extraordinarily well positioned as Delta recedes and the reopening gains momentum. In Q3, several trends supported this belief, including the continued outperformance of value and quality among smaller cap stocks and the strong relative performance of smaller caps in the second half of the quarter as the number of Delta cases declined. However, several fresh challenges to our outlook also emerged, most notably the sharp spike in commodity prices, continuing supply chain issues, and tightness in the labor force—all of which could put pressure on smaller cap earnings over the next few quarters.

It is encouraging to know a six-month pause in small cap leadership is not uncommon, even in the most robust leadership regimes. According to Steven DeSanctis at Jefferies, a pause of at least six months has occurred in four of the seven small cap outperformance cycles dating back to 1926. Additionally, the outperformance of small caps over the past 19 months largely mirrors their relative outperformance during the same period in the prior three leadership cycles.

Guidance will be critical

Third quarter earnings kick off this week and all eyes will be focused on how rising costs, labor shortages, and other supply chain constraints are impacting top and bottom lines. Guidance will be critical, given high expectations (and valuations). Currently, GDP is expected to come in above 4% next year and, according to Jefferies (which uses S&P indices and FactSet estimates), small cap earnings expectations for 2021 and 2022 (versus 2019) stand at 42% and 18%, respectively, compared to 26% and 9% for large caps. As stated last quarter, we always anticipate a bit of fluff in small cap expectations. However, small caps have delivered thus far in 2021 and recent revisions have trended better in small caps than large. This is positive, but also highlights the high level of expectations coming into the upcoming reporting season.

High absolute valuations amplify risks, but relative valuations for small cap value stocks remain attractive

The uncertainty coming into the Q3 reporting season is amplified by high absolute valuations across all market caps and styles, although small-mid does look better than small. According to Jefferies, the Russell 2000® and Russell 2500® currently trade at forward P/Es of 26.0x and 20.7x, respectively, versus their long-term averages of 16.4x and 16.0x. From our perspective these figures are high but make small-mid cap stocks a relative bargain! Fortunately, the valuation of small cap stocks relative to large cap remains very attractive. According to Goldman Sachs, small caps with positive earnings trade at a greater than 20% discount to the same universe in the SPX—nearly the widest discount in 20 years. A similarly compelling discount of 18% is reported by Leuthold Research, which utilizes the full universe of non-normalized trailing earnings.

The gap between small cap value and growth also remains extremely wide. According to Jefferies, the Russell 2000® Value is trading at a forward P/E of 18.3x, a 32% premium to its long-term average, versus 34.7x for the Russell 2000® Growth—a whopping 76% premium to its long-term average and the 14th percentile of its historical relationship to value. The Russell 2500® Value is trading at a forward P/E of just 15.3x, only a 9% premium to its long-term average, versus 29.3x for the Russell 2000® Growth—a 45% premium to its long-term average.

Internal valuation looks attractive, but high multiple reflects diminished opportunity set

From an internal valuation perspective, the discount to assessed value for the Portfolio's top 20 holdings has declined to an attractive 82%. The improvement reflects both recent share price weakness and rising cash flow estimates for many of our holdings. However, the average multiple used in this calculation has spiked to an all-time high of 10.7x. While we believe this multiple is well supported, it casts a shadow over an otherwise attractive discount and highlights why it remains a challenging environment to find new, high conviction investment opportunities trading at compelling prices.

Don't worry about the Fed or Washington, at least in the near term

While the U.S. Federal Reserve is expected to begin tapering its asset purchases later this quarter and begin raising rates in late 2022, this news has been fully digested by investors. As stated last quarter, we have experienced similar episodes throughout our careers and, at this stage of the economic cycle, the damage to markets is nearly always fleeting. Additionally, modestly higher rates and inflation are potentially good for smaller caps, especially if the job market and growth remain healthy. We also believe it is important that the Fed be proactive in dealing with some of the potentially stickier inflationary trends. While we do not currently expect a runaway commodity inflation boom, that scenario would weigh heavily on stocks. Thus, we view the modestly hawkish turn the Fed took in June as a positive and, generally, would not worry about rates until the yield on the 10-year Treasury exceeded at least >225 bps.

While we spent a lot of time focused on fiscal policy in the wake of COVID-19, we have moved Washington to the back burner. Temporary U.S. debt defaults are like taper tantrums—a bite from a mosquito rather than a rattlesnake. Furthermore, while the infrastructure bill (whatever its size) should provide a nice boost to a range of industries, it is not a game-changer. Neither are higher taxes, which are likely in some form under the current administration but unlikely to be large enough to tip the scales. Additionally, the $5 trillion of excess fiscal stimulus introduced in response to COVID-19 is still trickling through the economy and should provide a continuing boost to earnings for at least the next 12 months.

M&A remains hot, housing has cooled a bit, and commodity prices have soared

A record level of cash on company balance sheets is fueling increased capex, share buybacks, and record-high M&A activity. The latter is especially beneficial for small caps and the Fund. Year to date, three holdings in the Fund have been acquired this year—PRSP, CUB, and STAY. While there were no new announcements in Q3, we expect the environment to remain supportive well into 2022. Additionally, while home sales recently ticked lower, largely due to soaring prices, we continue to see a high level of pent-up demand (especially in the suburbs) that should keep the industry healthy for years, providing a tailwind for small caps.

Finally, the boom in commodity prices is a new and significant risk to smaller caps (and the overall market). While we typically have minimal exposure to commodity-related industries and we believe much of the current pressure will be relieved over the next six to 12 months, higher energy prices can take on a life of their own. This is especially true when producers are incentivized not to bring capacity online due to higher profits and/or the desire to gain longer-term leverage in what has been a nasty, protracted political battle over the role of fossil fuels and broader ESG concerns. Fortunately, we do believe both the consumer and businesses are in the best possible place to deal with moderately higher energy prices.

An environment where fundamentals and valuation matter

In summary, the market has spent the past six months transitioning from the early, euphoric stage of recovery to a point in this unorthodox cycle where a solid wall of worry has been constructed. Investor concerns are not based on the typical factors that kill a bull market but, rather, uncertainty regarding how long it will take to put COVID-19 and its accompanying fear in the rearview and for market forces to reconcile heavily damaged supply chains with the pent-up demand of consumers and businesses. From our perspective, these challenges are shorter term in nature with solutions that are currently in place and working. Resolution will simply require a bit more time. Additionally, many of the other elements that support a rising market (and strong performance by small cap value stocks) remain intact, including robust growth expectations, strong employment, and tight credit spreads.

Aside from the timely reconciliation of supply chain issues and higher energy prices, the biggest risk we are focused on is valuations. While small cap value stocks look very attractive relative to large cap and (especially) small cap growth, they are still quite expensive on an absolute basis. On their own, high valuations rarely kill a bull market but they could severely limit upside and greatly amplify volatility, even in a booming economy and particularly among small caps.

In our opinion, the combination of these factors creates an environment where fundamentals and intrinsic valuation matter—a lot! A market where active stock picking can shine, and, from our current perspective, the best opportunities are likely to be found among attractively priced, high quality smaller cap stocks. Thus, it is easy for us to be excited about the Fund, which has a valuation (as measured by EV/EBITDA in FactSet) of 9.3x versus 11.2x for the benchmark, a five-year average return on equity of 11.0% versus 8.4%, and a long-term earnings growth expectation of 10.8% versus 11.7% for the index.

The views expressed represent the opinions of River Road Asset Management as of September 30, 2021, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

Top Ten Holdings (%)[5] (as of 09/30/21)

Holding	% of Net Assets
Air Transport Services Group Inc	4.02
LKQ Corp	3.93
Cannae Holdings Inc	3.68
White Mountains Insurance Group Ltd	3.62
Premier Inc, Class A	3.31
NCR Corp	3.25
Murphy USA Inc	3.21
Hostess Brands Inc, Class A	3.08
Advance Auto Parts Inc	3.02
UniFirst Corp	2.87
TOTAL %	33.98

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.

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 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 special risk considerations similar to those associated with the direct ownership of real estate. Real estate valuations may be subject to factors such as changing general and local economic, financial, competitive, and environmental conditions.

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.

Market prices of investments held by the Fund may fall rapidly or unpredictably due to a variety of economic or political factors, market conditions, disasters or public health issues, or in response to events that affect particular industries or companies.

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.

Beta measures the relationship between the portfolio's excess return over T-bills (representing a risk-free rate) relative to the excess return of the portfolio's benchmark. A low beta does not imply that the portfolio has a low level of volatility; rather, a low beta means that the portfolio's market-related risk is low. Beta is often referred to as systematic risk.

ROE is the percentage a company earns on its total equity in a given year. A common way to calculate this ratio is to divide debt-free net income by average total equity. ROE shows how much profit a company generates on the money shareholders have invested in the firm.

[5] 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.

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® Index measures the performance of approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000® represents approximately 92% of the U.S. market.

The Russell 2000® Growth Index measures the performance of the Russell 2000® companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 2500® Growth Index measures the performance of those Russell 2500® Index companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 2500® Value Index measures the performance of the Russell 2500® companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 2000® Value Index is an unmanaged, market-value weighted, value-oriented index comprised of small stocks that have relatively low price-to-book ratios and lower forecasted growth values.

The Russell 2000® Index is a small-cap stock market index of the bottom 2,000 stocks in the Russell 3000® Index. The Russell 2000® is considered the most common benchmark for mutual funds that identify themselves as "small-cap."

The Russell 2500® Index is composed of the 2500 smallest stocks in the Russell 3000® Index and is widely regarded in the industry as the premier measure of small/mid cap stock performance.

The Russell Microcap® Index tracks the microcap segment of the U.S. equity market. It makes up less than 3% of the U.S. equity market and is represented by the smallest 1,000 securities in the small-cap Russell 2000® Index plus the next 1,000 securities.

The Chicago Board Options Exchange (CBOE) Volatility Index® (VIX®) shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 Index options. This volatility is meant to be forward looking and is calculated from both calls and puts. The VIX is a widely used measure of market risk and is often referred to as the "investor fear gauge."

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

The S&P SmallCap 600® Growth constituents are drawn from the S&P SmallCap 600® and seeks to measure growth stocks using three factors: sales growth, the ratio of earnings change to price, and momentum.

The S&P SmallCap 600® Value constituents are drawn from the S&P SmallCap 600® and seeks to measure value stocks using three factors: the ratios of book value, earnings, and sales to price.

The MSCI EAFE Small Cap Index covers all investable small-cap securities with a market capitalization below that of the companies in the MSCI Standard Indices of developed markets, excluding the U.S. and Canada. Please go to msci.com for the most current list of countries represented by the index.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. Please go to msci.com for the most current list of countries represented by the index.

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

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