AMG TimesSquare Small Cap Growth Fund

COMMENTARY | ASSET CLASS | SMALL CAP

Class N | TSCPX Class I | TSQIX Class Z | TSCIX

TIMESSQUARE CAPITAL MANAGEMENT, LLC

Average Annual Returns (%)[1] (as of 09/30/20)

	Q3	YTD	1 yr	3 yr	5 yr	10 yr	Since Incpt.
TSCPX (Class N)	5.47	6.30	17.14	11.07	12.08	12.94	9.08[2]
TSQIX (Class I)	5.53	6.40	17.31	11.23	—	—	12.27[3]
TSCIX (Class Z)	5.52	6.46	17.36	11.27	12.29	13.14	9.24[2]
Russell 2000® Growth Index	7.16	3.88	15.71	8.18	11.42	12.34	5.17[2]

TSCPX (Class N) Expense Ratio (Gross/Net): 1.19%/1.19%
TSQIX (Class I) Expense Ratio (Gross/Net): 1.03%/1.03%
TSCIX (Class Z) Expense Ratio (Gross/Net): 0.99%/0.99%

The performance data shown represents past performance. Past performance is not a guarantee of future results. 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 TimesSquare Small Cap Growth Fund** (Class N) returned 5.47% for the third quarter of 2020, compared with 7.16% for the benchmark, the Russell 2000® Growth Index. For the 12 months ending September 30, 2020, the Fund returned 17.14%, while the benchmark returned 15.71%.

Equity markets turned in robust results for the third quarter across the globe. In the U.S., gains of 9% pushed the broad indices into positive territory for the year, while similar quarterly climbs for Emerging Markets brought them almost even for the year, though the 5% advance for Non-U.S. equities left that segment in the red[4]. Growth stocks were the leaders in all regions, though in the U.S. there were progressively better results from larger capitalizations—with the highest returns for megacaps—while overseas the smaller capitalizations were in the lead.

Quarterly Update

In the U.S., the markets reflected optimism that the worst of the pandemic and its economic impact had passed. Looking back, the global death toll from COVID-19 passed 1 million—200,000 of whom were from the U.S.[5] —and the annual rate of gross domestic product growth in the second quarter was -31%, representing the steepest drop on record[6]. In the third quarter, global measures of manufacturing and services returned to expansionary levels[7] that coincided with recoveries in U.S. consumer confidence and sentiment[8]. Underpinning some of that enthusiasm was the continued monetary accommodation of central banks. The Federal Reserve announced that its current zero-interest rate policy may last until 2023, though cautioned that additional fiscal stimulus was needed. Across small-to-mid cap growth stocks, the third quarter repeated the prior quarter's risk preferences. High betas[9], a lack of earnings, and high valuations[10] were rewarded with above average returns. The consumer discretionary and industrial sectors were better than others, while energy and utilities trailed.

Fund Update

Amidst this environment, the Fund underperformed the Russell 2000® Growth Index in the third quarter. There was relative weakness in the financials, information technology, and consumer discretionary sectors. That was partly offset by strength from our positions in the health care sector.

Within the financials sector there was a range of results from the capital markets industry. Slipping by -3% was Hamilton Lane, which provides investment services for private markets. The company had a secondary offering that occurred at intra-quarter highs and subsequently pressured its share price. We had passed on that offering, though added to our position on the price weakness because we believe Hamilton Lane's underlying fundamentals remained intact. Getting a 12% bid this quarter was the independent investment bank and research provider Evercore Inc. The firm's revenues and earnings bested expectations, but all eyes were on the outlook. On that front, Evercore had limited visibility for when M&A activities would reaccelerate. After some initial price weakness early in the quarter following that report, Evercore's shares recovered as the pace of M&A announcements accelerated.

The information technology sector also had its share of challenges this quarter. Most notably was the Fund's greatest detractor, New Relic, and its -18% showing. The developer of Application Performance Monitoring systems that optimize

[1] Returns for periods less than one year are not annualized.
[2] Since the inception of the Fund's Class N and Class Z shares on January 21, 2000.
[3] Since the inception of the Fund's Class I shares on February 24, 2017.
[4] As represented by the S&P 500 Index and the Russell 3000® Index
[5] Source: World Health Organization.
[6] Source: Bureau of Economic Analysis of the U.S. Department of Commerce.
[7] Source: IHS Markit surveys of global purchasing executives.
[8] Sources: Nielsen and University of Michigan.
[9] Sensitivity to market movements.
[10] As measured by price/earnings ratios.

software across different platforms and environments, New Relic's revenues and earnings exceeded expectations, but the focus was on its reduced guidance for annual recurring revenues. That was the short-term impact of New Relic's newly simplified pricing tiers, which includes a reduced-functionality free option that some customers may use. Another point of weakness was NIC, Inc., which handles outsourced online portals for U.S. federal and state government agencies. NIC's revenues and earnings were better than anticipated, though the company merely affirmed the low end of the range for future revenues. However, NIC regained a service contract with Iowa, three years after the state opted to handle those functions in-house, and has new partnerships coming to fruition soon in other states. Thus as its price retreated by -14%, we added to our position. Far better was SailPoint Technologies, which develops identity governance systems for enterprise-wide use across various platforms and environments. We added to the position in early July, following our determination that its sales goals were on track. Then in August, SailPoint's reported revenues and earnings far outpaced sell-side estimates, with strength across all its products and regions. That pushed SailPoint's shares ahead by 50%.

There were also weak spots in the consumer discretionary sector. Chief among them was the -37% retrenchment with Strategic Education. Providing in-person and online postsecondary education services, focusing on business degrees, Strategic reported revenues and earnings that were better than anticipated. However, management noted that enrollment rates for the next quarter declined at a much greater rate than expected, and more so than the prior quarter. Despite the near-term volatility in enrollments caused by the pandemic, we are excited about Strategic's recently announced acquisition in Australia that could provide significant new opportunities. Another slip came from the automotive repair service provider Monro Inc. After reporting better-than-expected earnings, Monro announced that its CEO was leaving—having completed a three-year contract he had an opportunity to run a larger company. We later spoke with the CEO and CFO about the changes. While we understand the reasons for the CEO's departure and believe the executive team beyond him was very capable, in addition to the position size being reduced by its -26% return this quarter, we also trimmed it. Far better was the 25% gain from National Vision, the value-oriented optical retail chain providing eye exams, eyeglasses and contact lenses. Reported revenues and earnings were better than anticipated as pent-up demand helped the company return to "normal sooner than later," as the CFO said.

There were several bright spots in the health care sector. Among those was the Fund's greatest contributor—iRhythm Technologies and its 105% return. Developing biosensors and data analytics for cardiac monitoring, iRhythm benefited from improved pricing terms from the Centers for Medicare & Medicaid Services. That was followed by better-than-expected fiscal quarterly results that were aided by iRhythm's ability to shift to home-based enrollments from centers, which could be shut down again by the pandemic. Tempering those gains was HMS Holdings, which coordinates benefits paid by various states' Medicaid programs to reduce unnecessary payments caused by overlapping commercial insurance coverage or fraud. Originally purchased earlier in the year, we continued to add to our HMS position at the start of this quarter. However, its price slid by -26% after the company fell shy of expectations caused by lower volumes of claims to audit. Management had expected a faster enrollment pace of new state Medicaid programs, but that now was expected later in the year. More beneficial was Silk Road Medical, which develops innovative treatments for carotid artery diseases, particularly transcarotid artery revascularization (TCAR). The company reported revenues and earnings that bested expectations and its shares gained 60%. TCAR procedure volumes steadily recovered from their lows in April, with continued growth expected. Finally there was a 48% return from Inspire Medical Systems. Developing medical equipment to treat obstructive sleep apnea, Inspire reported revenues and earnings that were well ahead of expectations, with guidance for the remainder of the year that was also higher than anticipated. The company noted that 60% of its surgery centers had reopened by July, up from only 2% that were operational in April. Inspire also expects to add over 20 new U.S. surgery centers each quarter for the remainder of its fiscal year.

Heading into the end of the year and despite their upward march, global markets seem apprehensive in the face of a growing second wave of COVID-19 infections and the U.S. Presidential election. Thus far in 2020, the markets have showed remarkable resiliency with their ability to absorb, process, and then look past nearly everything that occurred. However, that buoyancy has not been broadly supported by the underlying global economies and company fundamentals. Our efforts remain on parsing the bottom-up information that reflects the abilities and opportunities for our positions, which should benefit your investments. As always, we are available for any questions you might have as we endeavor to protect the assets you have entrusted with us. Meanwhile, we hope that you, your family, and your colleagues remain in good health during these trying times.

The views expressed represent the opinions of TimesSquare Capital Management, LLC, as of September 30, 2020, are not intended as a forecast or guarantee of future results, and are subject to change without notice

Top Ten Holdings (%)[11] (as of 09/30/20)

Holding	% of Net Assets
CuriosityStream Inc Series A Conv Pdf144A	2.82
Q2 Holdings Inc	1.79
Bandwidth Inc, Class A	1.66
Acceleron Pharma Inc	1.65
SailPoint Technologies Holdings Inc	1.63
National Vision Holdings Inc	1.50
Rexnord Corp	1.47
Wheels Up Inc Preferred Shares	1.46
Blueprint Medicines Corp	1.34
NIC Inc	1.30
TOTAL %	16.62

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 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 growth stocks, which may be more sensitive to market movements because their prices tend to reflect future investor expectations rather than just current profits. Growth stocks may underperform value stocks during given periods.

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.

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 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 3000® Index is composed of the 3,000 largest U.S. companies as measured by market capitalization, and represents about 98% of the U.S. stock 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. Unlike the Fund, the Russell 2000 Growth Index is unmanaged, is not available for investment and does 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.

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[11] 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.

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