AMG Yacktman Fund

COMMENTARY ASSET CLASS | LARGE CAP

Class I | YACKX

YACKTMAN ASSET MANAGEMENT

Average Annual Returns (%)[1,2] (as of 06/30/20)

	Q2	YTD	1 yr	3 yr	5 yr	10 yr	15 Yr	20 Yr	Since Incpt.[3]
YACKX (Class I)	15.96	-9.18	-3.57	6.28	7.47	10.55	9.08	11.21	9.86
Russell 1000® Value Index[4]	14.29	-16.26	-8.84	1.82	4.64	10.41	6.24	6.32	9.09
S&P 500® Index[4]	20.54	-3.08	7.51	10.73	10.73	13.99	8.83	5.91	9.64

YACKX (Class I) Expense Ratio (Gross/Net): 0.75%/0.75%

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.

In the second quarter the **AMG Yacktman Fund** (the Fund) returned 15.96%, outpacing the 14.29% return for its primary benchmark, the Russell 1000® Value Index.

We hope this update finds readers healthy and well.

In the first ten weeks of 2020, the U.S. stock market dropped sharply due to business and economic disruption from COVID-19. By early June markets rebounded as optimism over massive amounts of stimulus and lower interest rates triumphed over weak fundamentals and an uncertain economic outlook. We produced solid outperformance versus the Russell 1000® Value Index and lagged the S&P 500® Index, which was driven by a handful of extremely high-priced growth stocks.

During the declines we put significant cash to work, making more than a dozen new purchases. Cash dropped to less than 15% at its low point, though it increased toward the end of the second quarter as we trimmed several positions that appreciated significantly. Even though general market fears have abated since March, we think it is a mistake for investors to underestimate potential risks to companies and economies especially due to high valuations, challenging fundamentals, significant leverage, and political discord.

Paying top dollar for stocks at a time when business fundamentals and the economy are facing some of the most serious challenges in generations is a bad idea. This will likely lead to low long-term index returns in a good scenario and painful losses if things don't go so well. The race back into equities from March lows reminds us a bit of the 1998–2000 period when the U.S. Federal Reserve (the Fed) cut rates in response to the Russian financial crisis and kicked off a tech bubble that eventually popped in 2000. Many short-term thinkers are behaving like a driver who thinks a good solution for driving through sudden inclement weather is to go as fast as possible so it is over quickly, even though it is much more risky and probably results in a bad outcome.

Our approach remains focused on individual investment opportunities that we think can provide solid risk-adjusted returns over time, even in periods like today where there is a large disconnect between prices and risk for most securities. It only takes a few great ideas to deliver solid long-term results.

Contributors and Detractors

During the first half of 2020, top contributors included Microsoft, Brenntag, and Alphabet.

Microsoft produced strong business results as several of its key operating units saw strong demand due to an increased work/stay at home environment. Its shares have performed exceptionally well in the last few years as it has delivered strong earnings growth and its business has demonstrated great resilience in a difficult economy.

Brenntag, the global leader in industrial chemical and ingredients distribution, produced solid results in the first quarter, a result of its management's continued demonstration of improved business fundamentals. We added to the position at bargain prices in the March declines and benefited from its recovery in the second quarter.

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

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

[3] Since the inception of the Fund on July 6, 1992.

[4] Effective June 30, 2020, the Fund's 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.

Alphabet's shares performed well along with tech stocks in the first half of the year. We continue to think its dominant search business along with strong assets like YouTube make the company well positioned.

Detractors in the first half of the year include oil services firm Weatherford, Macy's, and Bolloré.

Weatherford's business was materially impacted by declines in energy prices and a lack of demand for its services as companies in the industry cut back production. We received shares in Weatherford when the company exited bankruptcy in late 2019 and, while we believed the investment represented good value in a normal operating environment, we were not prepared for the company to deal with an economic crisis of this magnitude.

Macy's, which we own more for its real estate value than the retail business, suffered in the first half as expected earnings and cash flow turned into losses due to store closures. Its real estate value was also impacted due to reduced future demand for properties (especially for conversion to office space) and an acceleration of mall closures. We reduced the position at the end of the second quarter on a rebound in the stock price.

Bolloré's shares declined in the first half of 2020 despite positive events like Vivendi's (27% owned by Bolloré) sale of 10% of Universal Music Group for EUR3 billion, its commitment to IPO the business by 2023, and the public listing of Warner Music Group, a competitor to Universal Music, at a robust valuation. We think the shares are significantly undervalued, trading at nearly a 50% discount to just its ownership stake in Vivendi and having significant additional value in the ports/logistics business which is worth significantly more than corporate debt and providing significant additional value to the investment.

Conclusion

In the last several years, high-priced growth companies have significantly outperformed low-priced value stocks, bringing back the proclamations we heard in the late 1990s that value investing was dead. Underperformance of value at the end of the tech bubble created many fantastic investment opportunities for us, helping drive significant outperformance over the 20 years since then.

We think one of the keys to successful investing is having a strong valuation discipline. At times, we are able to own growth companies at value prices and get the best of both worlds. Several of our favorite holdings today have significant growth businesses, like Samsung, which is well positioned in rapidly expanding markets like semiconductors, 5G, autonomous driving, artificial intelligence, and internet of things. Bolloré is another company where we receive exposure to one of the highest quality growth assets in the world in Universal Music Group but have the protection of a low valuation after considering its other business.

U.S. markets are not too far below year-end levels despite the significant business and economic challenges that exist today. High prices will likely lead to disappointing returns for index investors over the longer term, but we believe we can achieve differentiated results over time by focusing on individual securities that offer good risk/reward in an expensive investment universe. As always, we will continue to be patient, diligent, and objective when managing the Fund.

The views expressed represent the opinions of the Yacktman Asset Management LP, as of June 30, 2020, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

Top Ten Holdings (%)[5] (as of 06/30/20)

Holding	% of Net Assets
Samsung Electronics Co Ltd Preferred	9.63
Bollore SA	4.73
Pepsi Co Inc	3.27
Microsoft Corp	3.14
Brenntag AG	2.95
Continental AG	2.95
Alphabet Inc, Class C	2.84
Procter & Gamble Co	2.68
Walt Disney Co	2.67
Fox Corp, Class A	2.61
TOTAL %	37.47

[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.

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 the risks associated with investments in debt securities, such as default risk and fluctuations in the perception of the debtor's ability to pay its creditors. Changing interest rates may adversely affect the value of an investment. An increase in interest rates typically causes the value of bonds and other fixed income securities to fall.

High-yield bonds (also known as "junk bonds") are subject to additional risks such as the risk of default.

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 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.

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 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 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 of value-oriented stocks that measures the performance of those Russell 1000® companies with lower price-to-book ratios and lower forecasted growth values.

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.

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