Q3 | 2018

AMG Managers Skyline Special Equities Fund

COMMENTARY

ASSET CLASS | SMALL CAP

Class N | SKSEX   Class I | SKSIX   Class Z | SKSZX

Skyline Asset Management, L. P.

Average Annual Returns (%)[1] (as of 09/30/18)

	QTD	YTD	1 yr	3 yr	5 yr	10 yr	Since Incpt.
SKSEX (Class N)	-0.07	1.98	2.91	10.45	8.09	12.40	11.89[2]
SKSIX (Class I)	-0.02	2.11	3.04	—	—	—	6.15[3]
SKSZX (Class Z)	0.00	2.18	3.17	—	—	—	6.23[3]
Russell 2000® Value Index	1.60	7.14	9.33	16.12	9.91	9.52	—
Russell 2000® Index	3.58	11.51	15.24	17.12	11.07	11.11	9.36[2]

SKSEX (Class N) Expense Ratio (Gross/Net)[4]: 1.19%/1.17%
SKSIX (Class I) Expense Ratio (Gross/Net)[4]: 1.09%/1.07%
SKSZX (Class Z) Expense Ratio (Gross/Net)[4]: 0.94%/0.92%

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 Managers Skyline Special Equities Fund** (Class N) generated a -0.07% return for the third quarter of 2018, compared with a 1.60% return for the Russell 2000® Value Index and a 3.58% return for the Russell 2000® Index. For the 12-month period ending September 30, 2018, the Fund returned 2.91%, while the Russell 2000® Value Index returned 9.33% and the Russell 2000® Index returned 15.24%.

Overview

Small cap stocks rose modestly in the third quarter. Companies reported strong earnings results, helped by a strong U.S. economy and corporate tax reform. Stock price gains were more muted, as the earnings results appeared to already be reflected in stock valuations. Concerns about the negative fallout from a global trade war also weighed on stock prices. The third quarter results built on gains generated earlier in the year, leading to solid year-to-date results.

The Fund underperformed both of its primary benchmarks for both the third quarter and the first nine months of the year. Stocks with the highest price to earnings (P/E) ratio and those with negative earnings significantly outperformed lower P/E stocks, making it a difficult environment for our style of investing. A relatively large weighting in the poorly performing building products subsector also hurt performance over both time frames.

We believe the near-term outlook for earnings is positive given a favorable U.S. economic backdrop and the expected benefits of corporate tax reform. Valuations have improved from their recent highs. However, they remain at levels that provide little downside protection if earnings growth disappoints.

Market Review

Stocks rose during the third quarter, as indicated by returns of 3.6% for the Russell 2000® Index, 1.6% for the Russell 2000® Value Index, and 7.7% for the S&P 500® Index. For the first nine months of the year, the Russell 2000® Index generated an 11.5% return, the Russell 2000® Value Index rose 7.1%, and the S&P 500 Index returned 10.6%.

A strong backdrop for corporate earnings, including solid U.S. GDP growth and lower corporate taxes, helped drive stock price gains for both the third quarter and first nine months of the year. Companies reported second quarter earnings per share (EPS) growth of greater than 20%, and are expected to post similar results for the third quarter and all of 2018 as well.

Stock price gains in the quarter and year to date were more modest than earnings gains. The strength in earnings was partially offset by concerns that a trade war between the U.S. and its major trading partners could develop, potentially derailing the global economy. In addition, interest rates remain near their highest levels in the last five years and the U.S. Federal Reserve (the Fed) is poised to raise their target range for the federal funds rate several times this year. Rising interest rates raise costs for consumers and corporate borrowers, which could in turn slow economic activity. Rising rates also have the potential to compress stock P/E multiples as bonds become a more attractive alternative.

Factors other than valuation and fundamentals appear to be driving small cap stocks so far in 2018. The gap in year-to-date performance between Russell 2000® stocks with the highest P/E multiples (up 26.2%) and those with the lowest P/Es (up 2.3%) is the largest since the internet bubble year of 1999. In addition, stocks with no earnings at all are up 18% year to date. Money-losing stocks make up nearly one-third of the small cap index, despite a strong environment for corporate profits. This year is on pace to be the busiest year for new initial public offerings (IPO's) since 2014, and 83% of those offerings involve companies that lost money in the 12 months prior to going public, the highest percentage since the dot-com bubble. Stocks of money-losing companies listing in the U.S. were up 36% on average from their IPO price through September 27. That is better than the 32% return for IPO stocks with earnings and the 9% gain for the S&P 500 Index.

[1] Returns for periods less than one year are not annualized.
[2] Since the inception of the Fund's Class N shares on April 23, 1987.
[3] Since the inception of the Fund's Class I and Z shares on February 24, 2017.
[4] The Fund's Investment Manager has contractually agreed, through at least May 1, 2019, 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.

AMG Managers Skyline Special Equities Fund

COMMENTARY

ASSET CLASS | SMALL CAP

Class N | SKSEX	Class I | SKSIX	Class Z | SKSZX

Small cap stocks rose broadly for both the third quarter and the first nine months of the year, with most sectors posting gains. The healthcare and communication services sectors were the best performing sectors over both time frames. Those sectors tend to have a large proportion of high P/E, non-earning, or high price-momentum stocks, allowing them to benefit from the market trends mentioned previously.

Performance Review

Skyline's investment style focuses on companies that are selling at low valuations relative to current or previously demonstrated earnings. As previously discussed, higher P/E and non-earning companies have significantly outperformed stocks with lower P/E multiples so far in 2018, creating a difficult environment for our style of investing. In addition, our process looks for inflection points in company fundamentals and the market's assessment of those fundamentals. In momentum-oriented markets, stocks that are already doing well are typically rewarded by investors regardless of valuation. Those that have not performed as well but may be poised to improve tend to underperform.

The consumer discretionary sector was the largest contributor to the Fund's absolute performance during the third quarter, but was the largest detractor to absolute performance year to date. Contributing to the third quarter's performance was Aaron's, Inc. (AAN), a lease-to-own retailer of home goods, which responded positively to better-than-expected earnings. AAN's Progressive Financial Leasing virtual lease-to-own offering is gaining meaningful traction with traditional retailers. Detracting from year-to-date performance was LCI Industries, a manufacturer of components for recreational vehicles. LCI was among the largest detractors to the Fund's performance year to date despite posting high-teens organic revenue growth. A rapid rise in steel and aluminum prices is causing temporary gross margin pressures. Given LCI's strong market position, we believe it will successfully pass those costs on to its customers, allowing its gross margins to return to historic levels.

The industrials sector detracted from the Fund's absolute performance during the third quarter due in part to weak performance at a number of its residential housing-related companies, including American Woodmark Corporation, JELD-WEN Holdings, Inc., Beacon Roofing Supply, Inc., and BMC Stock Holdings, Inc. We continue to believe that long-term demographic trends and a rebound in home ownership levels should allow the housing market to withstand the recent rise in interest rates.

The information technology sector contributed most to the Fund's absolute return for the first nine months of the year. Zebra Technologies Corporation, a manufacturer of products for automatic identification, was the largest individual contributor to performance year to date. Zebra's automatic identification and data capture equipment is benefiting from the need for companies to manage their supply chains more efficiently.

Sector allocation was a positive contributor versus the Russell 2000® Value Index during the third quarter, due in part to a lack of exposure to the poorly performing energy and consumer staples sectors. Sector allocation vs. the Russell 2000® Value Index was negative for the first nine months of the year due in part to the Fund's relatively low weighting in the strongly performing communication services sector.

Sector allocation was negative for the third quarter and year to date when compared to the core Russell 2000® Index. Primary contributors during both periods were relatively low weightings in the outperforming healthcare and communication services sectors.

Outlook

We feel that the outlook for earnings remains solid. The median current fiscal year expected EPS growth for the companies in the Fund is over 20%, driven by a healthy U.S. economy, lower corporate taxes, and company-specific factors. The biggest risks to those expectations are increasing trade tensions and higher interest rates. We are optimistic trade tensions won't escalate to a level that would derail U.S. GDP momentum. And absent a dramatic spike, we believe the economy can withstand a gradual rise in interest rates.

Valuations remain reasonable. The P/E on forward 12-month earnings of the companies in the Fund at the end of the third quarter was 14.6x. This is a meaningful discount to the Russell 2000® Index's 19.4x multiple.

The recent success of high P/E stocks, non-earnings stocks, and/or stocks with the best price momentum create a difficult environment for Skyline's fundamental, value-oriented approach. We have witnessed periods like this over the Fund's 25+ years of investing in small cap value stocks. Therefore, we believe that while it is difficult to predict when these trends will reverse themselves, we are confident that they eventually will, to the benefit of the Fund.

The views expressed represent the opinions of the Skyline Asset Management, L.P., as of September 30, 2018, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

Top Ten Holdings (%)[5] (as of 09/30/18)

Holding	% of Net Assets
Children's Place Inc	2.76
Aaron's Inc	2.69
Essent Group Ltd	2.40
Brunswick Corp	2.36
Orion Engineered Carbons SA	2.25
Trimas Corp	2.21
Ferro Corp	2.20
BancorpSouth Bank	2.08
First Busey Corp	2.07
First Midwest Bancorp Inc	2.01
TOTAL %	23.03

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.

A short-term redemption fee of 2% will be charged on shares held for less than 30 days.

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.

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.

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time.

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

Earnings Per Share (EPS) is a company's profits per share of common stock.

The federal funds rate is the interest rate at which depository institutions (banks and credit unions) lend reserve balances to other depository institutions overnight, on an uncollateralized basis.

The Russell 2000® Value Index is a market-capitalization weighted equity index maintained by the Russell Investment Group and based on the Russell 2000® Index, which measures how U.S. stocks in the small-cap equity value segment perform. Included in the Russell 2000® Value Index are stocks from the Russell 2000® Index with lower price-to-book ratios and lower expected growth rates.

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 by far the most common benchmark for mutual funds that identify themselves as "small-cap."

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.

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.

[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.