

Class N | SKSEX

Class I | SKSIX

Class Z | SKSZX

**Skyline Asset Management, L.P.**

Average Annual Returns (%)<sup>1</sup> (as of 03/31/18)

	QTD	YTD	1 yr	3 yr	5 yr	10 yr	Since Incpt.
SKSEX (Class N)	-1.34	-1.34	6.47	5.76	10.51	11.29	11.97 <sup>2</sup>
SKSIX (Class I)	-1.30	-1.30	6.66	—	—	—	5.77 <sup>3</sup>
SKSZX (Class Z)	-1.29	-1.29	6.73	—	—	—	5.81 <sup>3</sup>
Russell 2000 <sup>®</sup> Value Index	-2.64	-2.64	5.13	7.87	9.96	8.61	—
Russell 2000 <sup>®</sup> Index	-0.08	-0.08	11.79	8.39	11.47	9.84	9.13 <sup>2</sup>

SKSEX (Class N) Expense Ratio (Gross/Net)<sup>4</sup>: 1.19%/1.18%

SKSIX (Class I) Expense Ratio (Gross/Net)<sup>4</sup>: 1.04%/1.03%

SKSZX (Class Z) Expense Ratio (Gross/Net)<sup>4</sup>: 0.94%/0.93%

*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 -1.34% return for the first quarter of 2018, compared with a -0.08% return for the Russell 2000<sup>®</sup> Index and a -2.64% return for the Russell 2000<sup>®</sup> Value Index. For the 12-month period ending March 31, 2018, the Fund returned 6.47%, while the Russell 2000<sup>®</sup> Index returned 11.79% and the Russell 2000<sup>®</sup> Value Index returned 5.13%.

**Overview**

Stock price volatility increased meaningfully, as optimism about earnings early in the period gave way to concerns about higher interest rates and global trade tensions as the quarter unfolded. The near-term outlook for earnings is positive given a favorable global economic backdrop and the expected benefits of corporate tax reform. However, we believe current valuations are at risk due to higher interest rates and leave little downside protection against disappointments.

<sup>1</sup> Returns for periods less than one year are not annualized.

<sup>2</sup> Since the inception of the Fund's Class N shares on April 23, 1987.

<sup>3</sup> Since the inception of the Fund's Class I and Z shares on February 24, 2017.

<sup>4</sup> 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.

**Market Review**

Stocks declined during the first quarter, as indicated by returns of -0.1% for the Russell 2000<sup>®</sup> Index, -2.6% for the Russell 2000<sup>®</sup> Value Index, and -0.8% for the S&P 500<sup>®</sup> Index. The first quarter witnessed the return of stock market volatility after several years of relative calm. During the first three months of the year, there were 22 daily market moves of greater than 1% (either up or down) and 6 of greater than 2%, compared to 8 and 0, respectively, for all of 2017.<sup>5</sup>

The spike in equity market volatility came despite a solid outlook for earnings growth and coincided with the release of January U.S. employment statistics. Included in the report was data showing the strongest annual wage growth since 2009.<sup>6</sup> This led to concerns that inflation would accelerate, which in turn contributed to a sharp rise in U.S. Treasury yields. The specter of higher inflation also stoked fears the U.S. Federal Reserve (the Fed) would tighten monetary policy faster than expected. The Fed's unprecedented level of monetary easing following the financial crisis was beneficial to asset prices. Investors are now forced to assess the impact policy normalization will have on the economy and asset prices. Toward the end of the quarter, concerns of increased global trade tensions added to investor uncertainty.

Most sectors of the small cap market posted declines in the first quarter. The most notable exceptions were the fastest growing stocks (the Russell 2000<sup>®</sup> Growth Index rose 2.3% during the period), in particular within the health care and information technology sectors. Financial stocks also eked out a small gain. Among the worst performing sectors were real estate and utilities. Stocks in those sectors typically carry relatively high dividend yields, and in periods like the first quarter where interest rates are rising, they become less attractive to income-oriented investors. Energy stocks also underperformed during the quarter due to continued oil price volatility.

**Performance Review**

The Fund generated a -1.3% return for the first quarter, compared to a -0.1% return for the Russell 2000<sup>®</sup> Index and a -2.6% return for the Russell 2000<sup>®</sup> Value Index. Sector allocation was a positive contributor versus both benchmarks due primarily to the Fund's modest exposure to poor performing real estate investment trusts (REITs), utilities, and energy stocks. The positive impact of sector allocation was less pronounced versus the core Russell 2000<sup>®</sup> Index due to the relatively heavy weighting that benchmark has in the strong performing health care sector.

Stock selection was a positive contributor relative to the Russell 2000<sup>®</sup> Value Index but detracted from performance relative to the Russell 2000<sup>®</sup> Index. Stock selection in the real estate and health care sectors contributed positively to the Fund's performance relative to both benchmarks, while selection in the consumer discretionary sector was a detractor. The primary difference in the Fund's performance relative to

<sup>5</sup> FactSet.

<sup>6</sup> U.S. Bureau of Labor Statistics.

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each benchmark was within the information technology sector. The modest positive returns generated by the Fund’s tech stocks compared favorably to the loss suffered by tech stocks in the value benchmark, but trailed the solid gains posted by the more growth-oriented tech stocks in the core benchmark.

The health care sector contributed most to the Fund’s absolute performance in the first quarter. The Ensign Group, Inc., an owner and operator of skilled nursing facilities, contributed significantly to the Fund’s return after reporting solid earnings growth. We expect Ensign to continue to benefit as it strengthens operations at recently acquired facilities. AMN Healthcare Services, Inc., a health care staffing company, also contributed positively to the Fund’s performance, as its leading market share and well-developed systems enable it to take advantage of the ongoing nursing shortage in the U.S.

The industrials sector detracted most from the Fund’s absolute performance during the first quarter. BMC Stock Holdings, Inc., a distributor of building supplies, declined due to uncertainties created by the departure of its CEO early in the quarter. We believe the business fundamentals are solid and are confident the board will find a suitable replacement.

The real estate sector contributed most to the Fund’s performance relative to both of its benchmarks due primarily to a lack of exposure to poor performing REITs, which make up the bulk of the sector for the index. Realogy Holdings Corp, a residential real estate broker, rose modestly as its recently appointed CEO laid out his strategy to improve financial results.

The consumer discretionary sector was a detractor to performance relative to both benchmarks. Signet Jewelers Limited, a jewelry retailer, declined after providing disappointing earnings guidance. The factors contributing to the poor guidance caused us to lose confidence in our investment thesis, leading to the sale of the stock during the quarter.

**Outlook**

Trade tensions have risen recently but we are optimistic they won’t escalate to a level that would derail global GDP (gross domestic product) momentum. Short of an all-out trade war, we believe the outlook for earnings remains constructive as a more favorable regulatory environment and lower corporate taxes are conducive to investment and growth.

In addition, valuations have improved meaningfully with the recent modest decline in stock prices and significant upward revision in earnings estimates (due in part to the benefits of lower corporate tax rates). At the beginning of the year, the Russell 2000® Index was trading at 21.6 times forward 12 month earnings, and has declined to 18.6 times currently. Over the same time frame, the Fund has seen its forward twelve month price/earnings ratio (P/E) fall from 18.1 times to 14.6 times.<sup>7</sup> The decline

<sup>7</sup> FactSet.

in valuations has brought them closer to their long-term averages after an extended period at the higher end of their historical range.

In our opinion, the recent bout of stock price volatility is a function of financial markets attempting to recalibrate stock valuations. The level of volatility may be heightened because investors have been lulled into a false sense of security following an extended period of calm in the markets. We have observed that changes in sentiment following a steep run up in prices can cause a sharp price decline, followed by a period of elevated volatility, before settling into a more normal trading range.

We don’t believe that the elevated level of stock price volatility reflects investor unease about company fundamentals. To the contrary, the most recent quarterly reporting season confirmed the positive outlook for corporate earnings.

As long as fundamentals remain strong, we believe volatility will eventually subside. In the meantime, we will seek to take advantage of price swings to add to stocks that are marked down to more attractive values and trim those that achieve our price objectives.

*The views expressed represent the opinions of the Skyline Asset Management, L.P., as of March 31, 2018, are not intended as a forecast or guarantee of future results, and are subject to change without notice.*

Top Ten Holdings (%)<sup>8</sup> (as of 03/31/18)

Holding	% of Net Assets
Children's Place Inc	2.80
Aaron's Inc	2.24
Ferro Corp	2.21
WNS Holdings Ltd ADR	2.15
Umpqua Holdings Corp	2.10
Rexnord Corp	2.10
Brunswick Corp	2.10
Zebra Technologies Corp, Class A	2.05
BancorpSouth Bank	2.04
First Busey Corp	1.99
TOTAL %	21.78

**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.*

<sup>8</sup> 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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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.

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.

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

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

The Russell 2000<sup>®</sup> 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<sup>®</sup> Growth Index is unmanaged, is not available for investment and does not incur expenses.

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.

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