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 (%)[1,2] (as of 09/30/17)

	QTD	YTD	1 yr	3 yr	5 yr	10 yr	Since Incpt.
SKSEX (Class N)	5.78	7.42	23.40	10.18	15.54	8.90	12.20[3]
SKSIX (Class I)	5.84	—	—	—	—	—	6.76[4]
SKSZX (Class Z)	5.84	—	—	—	—	—	6.74[4]
Russell 2000® Value Index	5.11	5.68	20.55	12.12	13.27	7.14	—
Russell 2000® Index	5.67	10.94	20.74	12.18	13.79	7.85	9.17[3]

SKSEX (Class N) Expense Ratio (Gross/Net)[5]: 1.19%/1.18%
SKSIX (Class I) Expense Ratio (Gross/Net)[5]: 1.04%/1.03%
SKSZX (Class Z) Expense Ratio (Gross/Net)[5]: 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** (N Class) generated a 5.78% return for the third quarter of 2017, compared with a 5.67% return for the Russell 2000® Index and a 5.11% return for the Russell 2000® Value Index. For the 12-month period ended September 30, 2017, the Fund returned 23.40%, while the Russell 2000 Index returned 20.74% and the Russell 2000 Value Index returned 20.55%.

Overview

Stocks rose broadly during the third quarter, as all sectors with meaningful weights in the benchmark indexes posted gains. For the first nine months of the year, most sectors rose, with energy a notable exception.

During the third quarter, the Fund outperformed the Russell 2000 Index and the Russell 2000 Value Index due to the positive contribution of both sector allocation and stock selection. For the first nine months of the year, the Fund underperformed the Russell 2000 Index due primarily to a lack of exposure to the high growth/high valuation stocks that drove much of the Index's performance in the first half of the year. The Fund outperformed the Russell 2000 Value Index for the first nine months of 2017 due to advantageous sector allocation and stock selection.

Stock prices continued to benefit from a solid outlook for earnings and low interest rates. However, investors have bid up stocks in anticipation of the enactment of meaningful tax reform that is expected to be beneficial to corporations' bottom lines. We believe stock prices going forward will be influenced by the relative success or failure of corporate tax reform.

Market Review

Stocks rose during the third quarter, as indicated by the Russell 2000 Index's 5.7% increase, the 5.1% return generated by the Russell 2000 Value Index, the 6.2% increase for the Russell 2000® Growth Index, and the S&P 500® Index's 4.5% increase. The strong third quarter performance helped drive year-to-date gains of 10.9% for the Russell 2000 Index, 5.7% for the Russell 2000 Value Index, 16.8% for the Russell 2000 Growth Index, and 14.2% for the S&P 500 Index. All four indexes ended the quarter at all-time highs.

Despite the wide differential in year-to-date performance between small cap growth, small cap value, and large cap stocks, performance over the last year is more closely aligned, with the Russell 2000 Index up 20.7%, the Russell 2000 Value Index up 20.6%, the Russell 2000 Growth Index up 21.0%, and the S&P 500 Index up 18.6%. Over the same time frame, the Fund is up 23.4%. In late 2016, the "Trump Trade" drove strong relative performance by small cap and value-oriented companies due to expectations that they would benefit disproportionately from a more business-friendly and lower corporate tax rate environment. For most of 2017, expectations that the new administration's programs would be implemented diminished, causing a reversal away from small and value-oriented companies toward large cap and growth companies. However, late in the third quarter of 2017, Republicans released the outlines of their proposed tax reforms, and the Trump Trade was rekindled.

Stock price gains were fairly broad-based during the third quarter and year to date, with most sectors generating positive returns. Health care stocks performed particularly well driven by biotech stocks, which rebounded from a weak 2016 as the controversy over drug pricing became less prominent in investors' minds. Economically sensitive sectors like industrials and materials also performed well in response to an improved outlook for the global economy. Although energy stocks rebounded in the third quarter along with oil prices, the gains were not enough to offset declines earlier in the year.

Fund Portfolio Review

The Fund is constructed to own stocks with what we believe is the best combination of value and earnings growth. Therefore, it does not own the fastest growing small cap stocks (which typically carry high price-to-earnings) that make up a portion of the core Russell 2000 Index. When growth stocks significantly outperform, as they have so far in 2017,

[1] Returns for periods less than one year are not annualized.
[2] Prior to February 27, 2017, the Fund's N shares were known as S shares.
[3] Since the inception of the Fund's Class N shares on April 23, 1987.
[4] Since the inception of the Fund's Class I and Z shares on February 24, 2017.
[5] 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.

performing well relative to the core index is challenging. At the same time, because we do incorporate a growth component into our investment philosophy, the Fund has tended to perform better than the value benchmark when growth stocks outperform.

The Fund outperformed both of its benchmarks during the third quarter, due in part to strong performance by its industrials and consumer discretionary sectors. Columbus McKinnon Corporation (CMCO), a global manufacturer of materials handling systems and services, was the largest contributor to the Fund's performance during the quarter. CMCO reported earnings that were much better than street expectations. Along with an increase in domestic demand, CMCO is benefiting from cost reductions and the contributions from recent acquisitions. The Children's Place, Inc. (PLCE), a children's clothing retailer, was also a significant contributor to the Fund's performance during the quarter. PLCE continues to deliver better than expected earnings results in a difficult retail environment due to steps taken by management to improve merchandising and operate more efficiently. PLCE is also benefiting from the financial and operational struggles at some of its largest competitors.

The financials sector was a major detractor from the Fund's performance relative to its benchmarks during the third quarter. Greenhill & Co., Inc., an independent investment banking firm, reported disappointing results due to a slowdown in completed transactions. Despite the slowdown, the pipeline appears solid and management announced a large share repurchase and significant insider buying.

The Fund performed well on an absolute basis for the first nine months of the year. Ferro Corporation, a specialty chemical producer, contributed most to the Fund's performance for the first nine months of the year. Ferro is benefiting from the repositioning of its product portfolio toward higher-margin specialty products, which is driving better-than-expected revenue and earnings growth. ManpowerGroup Inc., an employment services company, was a major contributor to the Fund's year-to-date results. Manpower is benefiting from the economic recovery in Europe and improved margins resulting from recent restructuring actions.

The strong year-to-date absolute return was somewhat negatively impacted by performance at several of our retail holdings. Given the headwinds facing traditional brick-and-mortar retailers, we have reduced our exposure there to only our highest conviction holdings.

The Fund underperformed the Russell 2000 Index for the first nine months of the year. The largest detractor to relative performance was the relatively low weighting in health care stocks, particularly the fast growing (and highly valued) biotech subsector. Absolute performance in the sector was solid, led by Teleflex Incorporated, a medical devices company. Teleflex announced an attractive acquisition and is expected to continue to benefit from efforts to drive margin expansion through increasing operating leverage.

The Fund outperformed the Russell 2000 Value Index for the first nine months of the year due to advantageous sector allocation, highlighted by its lack of exposure to the poorly performing energy sector, and solid stock selection.

Outlook

The fundamental backdrop for earnings growth is positive. The global economy is experiencing its most synchronized expansion since the 2008/2009 recession. U.S. gross domestic product grew 3% in the second quarter, the fastest pace since the first quarter of 2015,[6] and is expected to accelerate further in the third quarter. The current U.S. administration is committed to reducing the impact of regulations on businesses, and there continues to be momentum building toward comprehensive tax reform, including a meaningful reduction in the U.S. corporate tax rate.

In light of the positive outlook for earnings, small cap stocks continue to trade on the high end of their historical valuation range. We believe current valuations are also a reflection of the low returns available on alternative investments like bonds in a low interest rate environment. We believe it is critical for companies to deliver their expected earnings, as there is little valuation support for disappointments. Valuations may also reflect expectations that tax reform will be enacted, so failure to do so may negatively impact prices.

We believe the fundamentals of the companies in the Fund remain solid and their valuations are attractive relative to the typical small cap company. Because of our focus on finding the best combination of above average earnings growth and below average valuations, the Fund tends to be somewhat more economically sensitive than its benchmarks. We believe the Fund is well positioned to take advantage if earnings improve as we expect.

The views expressed represent the opinions of the Skyline Asset Management, L.P., as of September 30, 2017, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

[6] U.S. Bureau of Economic Analysis

Top Ten Holdings (%)[7] (as of 09/30/17)

Holding	% of Net Assets
Children's Place Inc	2.56
Ferro Corp	2.34
First Busey Corp	2.09
Manpowergroup Inc	1.95
BancorpSouth Inc	1.93
Belden Inc	1.92
EnPro Industries Inc	1.92
BMC Stock Holdings Inc	1.91
Brunswick Corp	1.85
Umpqua Holdings Corp	1.80
TOTAL %	20.27

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.

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 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.

The Standard & Poor's 500, often abbreviated as the S&P 500®, or just "the S&P", is an American stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The S&P 500® Index components and their weightings are determined by S&P Dow Jones Indices.

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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[7] 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.