AMG Yacktman Special Opportunities Fund Mid-Year Update
June 30, 2021

SEMI-ANNUAL INVESTOR LETTER

Class I | YASSX Class Z | YASLX

YACKTMAN ASSET MANAGEMENT

Average Annual Returns (%)[1] (as of 06/30/21)

	Q2	YTD	1 yr	3 yr	5 yr	Since Incpt.
YASSX (Class I)	10.48	24.52	64.95	11.69	17.36	12.44 [2]
YASLX (Class Z)	10.53	24.55	65.17	11.79	17.48	9.64 [3]
MSCI All Country World Index All Cap	7.16	12.75	41.14	14.23	14.56	9.69 [3]

YASSX (Class I) Expense Ratio (Gross/Net)[4]: 1.24%/1.15%
YASLX (Class Z) Expense Ratio (Gross/Net)[4]: 1.14%/1.05%

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.

For the six months ending June 30, 2021, the **AMG Yacktman Special Opportunities Fund** (the Fund) Class I shares returned 24.52%, well ahead of the 12.75% return of the MSCI All Country World All Cap Index (ACWI).

The stock market had a solid start to 2021, recovering from the turmoil of last year. A market return in the low teens by June would be considered an outstanding result by any historical measure. Yet it's hard not to wonder if many "investors" will be satisfied with only average returns in this current investing climate. Many have been drawn into the market by the "gamification" of trading on Robinhood and the search for the next GameStop. The general sense is that valuation and business analysis have been replaced by story stocks and memes in the search for triple-digit gains. This expectation is at odds with the historical evidence, where elevated valuation levels tend to predict low future returns.

Rather quietly, small-cap value stocks had a strong start this year, continuing the reversal that started mid-2020 after years of underperformance. The trend faltered a bit in June with concerns over the rise in COVID variants, cracks in the runaway inflation narrative, and a sudden reversal in the direction of interest rates. Increased interest in the small value stocks we favor would be a nice tailwind—so far, it has been the opposite for much of the Fund's existence. However, we are investing in underlying businesses, not size or value factors. Many of our investments have "self-help" opportunities that range from company-specific catalysts to inexpensive valuations. Over long periods, we believe our performance will be driven by stock selection.

To justify current valuations, the market needs to navigate a minefield of potential problems: virus variants, fiscal response, stimulus roll-offs, inflation expectations and the eventual return to "normal" work/life. What are the odds of navigating every one of these successfully? The margin of error is thin. It reminds us of placing a ten-team parlay bet, where winning nine out of ten bets still means a losing ticket. Many gamblers have placed that bet in the hopes of being a hero, and we feel many investors are making a similar call. We will let others bet the ten-team parlays and instead continue with fundamental analysis and valuation discipline.

Portfolio Review

We added six positions to the portfolio and exited three. The additions showcase the diversity of our investment process. They include two Korean microcaps (in steel and rubber tire tubes), an upstream oil & gas operator, a U.S. apparel retailer, a Canadian copper company with operations in Chile, and a branded chocolate manufacturer focused on emerging markets. Many companies in the Fund have a significant portion of the market cap covered by net cash, securities, or other hidden assets and these new additions broadly align with that conservative strategy. Reflecting our cautious stance, the new positions have started at relatively modest weightings. We have kept ample room to buy more if the share prices become more attractive in the future.

Concentration has also increased as we added capital to our best ideas. The top five now make up 31.2% of the Fund. As the market has recovered to all-time highs, the relative attractiveness in some of our existing positions has increased. The number of holdings is also slightly higher than usual, partially because three companies are undergoing a merger or are in the process of being acquired. The portfolio's cash position increased slightly, ending the quarter at 6.6%. This is the most cash we have held in many years. One reason for the elevated cash position is the payoff of one of our most prominent positions in the convertible debt of Colabor Group, a food distributor in Canada. Unlike our equity investments where we tend to gradually trim before fully exiting the position (barring some event like a buyout), a credit investment has a defined catalyst—the debt comes due on a specified date. Cash is a byproduct of the investment

[1] Returns for periods less than one year are not annualized.
[2] Since the inception of the Fund's Class I shares on June 30, 2015.
[3] Since the inception of the Fund's Class Z shares on June 30, 2014.
[4] The Fund's Investment Manager has contractually agreed, through May 1, 2022, 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.

process and we have been patiently deploying the Colabor proceeds into a mix of existing positions and new ideas.

Lessons on Leverage

The concept of leverage has been a hot topic for years. We believe the prudent use of long-term, fixed-rate debt can turbocharge equity returns (look at how many consumers have built up wealth via the 30-year mortgage, a uniquely American phenomenon). However, too much leverage can be ruinous to long-term compounding, a lesson that's easy to overlook in a period of record-low interest rates and a world awash in liquidity. Our investment approach has tended to shy away from highly leveraged companies, as they often fail our most crucial test—downside risk. We thought it would be instructive to highlight three stories about leverage.

The first story is about a recent debt investment in the Fund. In March 2018 we started buying the convertible debt of a food distribution company in Canada called Colabor. The company was built by the previous management team rolling up a collection of food distribution and wholesale businesses. The integration went poorly and the company was stuck with poor margins, little cash flow, and too much debt. A 2016 recapitalization transaction injected equity and installed a new management team but the turnaround was difficult and slow-going. We felt the problems were "fixable" but were concerned by the amount of leverage relative to current profits. Investing in the equity offered upside potential but was extremely risky. Yet Colabor had an overlooked debt security (the convertible debentures) that traded at a meaningful discount to par and yielded equity-like rates of return with less risk. We patiently built up a significant stake in the debt over subsequent months and then the pandemic hit. It was a terrible time to be a food distributor to restaurants and the converts traded down sharply. While the mark-to-market loss stung, we felt secure in our position in the debt. The core business had a strong market position in Quebec. It was a strategically important asset but loss-making subsidiaries obscured profitability. Owners of the equity were made up of shareholders who had recently recapitalized the company, including funds focused on promoting jobs and investment in the province of Quebec. We continued to increase our stake throughout 2020 as the company managed to generate cash through even the worst lockdown quarters. On most days, it felt like we were the only buyer in the debt which traded as low as the mid-50s. The strength of the core business prevailed, and the bonds recovered rapidly and were eventually taken out at par plus accrued interest in March 2021 as part of a broader refinancing.

Why the opportunity? Colabor was a left-for-dead stock in a low-margin business with little or no investor interest. The conversion feature was "busted," so the natural convert buyers were not interested. Finally, the total issuance was small (CAD$50 million), so most institutional funds couldn't invest. It was a great setup and we leveraged our flexible mandate to build it into one of our top positions. Investing directly in the debt was a powerful tool that provided material returns during a period of elevated market uncertainty.

The second story deals with a stock on the other end of the debt spectrum. We also own a handful of securities where the attraction is the safety afforded by the *lack* of leverage in the capital structure. Japan has a reputation for poor corporate governance. Japanese companies have hoarded cash for decades, long a point of contention among international investors. Many small companies were shunned in Japan because "nothing would ever change." One example of a cash-rich company is Mitani Corp (Mitani). The majority of Mitani's revenue is from the distribution of construction materials, primarily cement, where they are the top trader in Japan. Like many Japanese companies with long histories, Mitani has branched out into a hodgepodge of other activities including window cleaning gondolas, a gas station chain, IT distribution services, and a cable TV network. We have owned the stock since the inception of the Fund seven years ago. When we first purchased, investor apathy and the conglomerate nature had led the stock to trade at a considerable discount to book value. There was plenty of excess cash, which kept returns low, but the overcapitalized balance sheet hid a core group of businesses that were above average. Yet despite the drag from the excess cash and relatively modest profit growth (EBITDA was up 4% per year since 2014), the stock price adjusted for dividends has compounded at roughly 18% per year (equivalent to more than 3x in seven years), well ahead of both the Japanese stock market and the Fund's global benchmark. An outstanding result by almost any measure.

How? Mitani's governance and capital allocation were perhaps not up to U.S. standards but exceeded expectations versus Japanese peers. Management more than quadrupled the dividend and consistently repurchased shares, still a rarity in Japan. We still own shares as part of our Japanese "deep value" basket as it continues to meet our investment criteria. The valuation multiple has expanded but Mitani continues to trade at a low-teens multiple of earnings. Net cash and securities have grown nearly as fast as the share price so Mitani still has almost 60% of its market capitalization in excess cash. The company is a good example where valuation and minor improvements in governance and capital allocation can turn a dull business into a high-return investment (no leverage needed).

The final story is a personal one on the impact of leverage. Before joining Yacktman, I ran an investment blog for my personal capital that featured in-depth write-ups on small value stocks around the world, a similar strategy to the one implemented within the Fund today. One of those write-ups, posted in June 2012, outlined a cash-rich Japanese conglomerate that traded at a steep discount to book value. Sound familiar? From June 30, 2012, that security compounded at 26% per year over the next nine years, enough to turn $1 into over $8. While the total return was great, there was another benefit. It just so happened that our Chief Investment Officer, Stephen Yacktman, stumbled across the blog post on that Japanese stock. He was impressed enough with the analysis to reach out with a one-line email: "Please give me a call, Steve." That conversation eventually led to a spot on the Yacktman investment team in 2013. The launch of this Fund followed in June 2014. Here we are seven years later. That company is responsible for its solid contribution to the Fund's performance, but in some sense, for all the gains across the Fund. What better example of leverage than that? Thank you, Mitani.

Contributors/Detractors

The top three contributors for the last six months were Texhong Textile Group (Texhong), Italian Wine Brands (IWB) and Total Energy Services (Total Energy). Texhong is the yarn and apparel manufacturer described extensively in prior letters (including as a detractor in the most recent one). The ink on that last update outlining Texhong's tough 2020 had barely dried before the stock price moved sharply upward, almost doubling between January and March. While there was no company-specific news to explain that initial run, Texhong followed with a positive profit warning. In June they announced that net profit after tax had already exceeded RMB1 billion in the first five months of 2021. By comparison, Texhong's highest *annual* profit over its history is approximately RMB 1.2 billion. While there are some one-off gains in that first half number due to increasing cotton prices, we feel Texhong is set up to produce record cash flows after years of heavy investment.

IWB, a top contributor last year, continued its run in the first half of 2021. Acquisitions were always part of the plan at IWB. In June the company announced a transformational merger with Enoitalia, one of the largest wine producers in Italy (roughly similar in sales to IWB). The two companies seem to be great complements. The merger allows IWB to expand into new geographies and product lines. Cost savings should be straightforward and meaningful. For example, Enoitalia has excess bottling capacity that can be filled with IWB's brands and the company should be able to flex the new combined buying power with its suppliers. The deal was funded by issuing EUR130 million in 7-year bonds paying a modest 2.50% coupon meaning the Enoitalia deal should be highly accretive (an example of prudent leverage). Despite the run-up in share price, we believe the pro forma company remains attractively valued with a long runway for growth. We have maintained a significant weighting.

Like Texhong, Total Energy was on the detractor list last year, wounded by the oil & gas downturn during the pandemic. The macro situation for oil has changed dramatically in the last six months, with oil prices recently topping $70 per barrel, a far cry from the negative prices last year. The last time oil prices were at these levels (back in 2018), Total Energy's stock price was in the mid-teens versus less than CAD$5/share today. The company has rapidly paid down debt over the past 3.5 years and has just restarted its share repurchase program. While we are not counting on it as our base case, a sustained upswing in the oil market should see explosive growth in cash flow for Total Energy. The downside remains well-protected by saleable assets, real estate and low-cost operations. Maybe seeing the same risk/reward, Total Energy's CEO has bought shares almost every week since the March downturn last year.

For the last six months, the top three detractors were Omni Bridgeway (Omni), WIN-Partners, and Samsung Electronics (Samsung). Neither WIN-Partners nor Samsung were material detractors. WIN-Partners distributes medical devices in Japan and suffered from a slow year caused by the cancellation or delay of many medical procedures due to the pandemic. Samsung pulled back after a sharp rise late in 2020. The semiconductor division is performing strongly and offsetting some weaknesses in other segments. Recent news articles outlining semiconductor shortages affecting many industries only reinforce the importance of chips in everyday life. This future bodes well for Samsung.

Omni, the litigation finance company out of Australia, has been our largest position for some time. The nature of litigation finance is that financial results are lumpy (tracking case wins or losses) and Omni's stock has inherited some of that volatility. We believe this dynamic will change due to the much larger case book, more diverse set of exposures, and rising fee income. News flow from Omni's cases in the first half of 2021 has been positive overall, including a partial but material settlement in one of their largest investments, known as Wivenhoe. Other technical aspects have also weighed on the stock despite the positive case news. These include a compulsory sale of shares by U.S. retail shareholders (to preserve the ability to raise capital in the U.S.) and a potential relisting on a U.S. exchange (which was not taken well by the still predominantly Australian shareholder base). We think such a listing makes sense at some point and are encouraged that Omni's CEO has decided to move to the U.S. for better visibility with investors. Unfortunately, COVID has caused severe delays in the court system. Without the threat of trial, resolutions are delayed but this backlog is starting to alleviate. Omni has historically done well coming out of major crises, which tend to be a magnet for litigation, and COVID will likely be no different.

Conclusion

As summer comes to an end, we enter fall with valuations and exuberance near all-time highs. The upcoming earnings season will be an unusual one, as many stocks are lapping the worst of the lockdown results. On the other end, many high-flyers have the daunting task of comparing to a period of supernormal, stimulus-driven profits. We would not be shocked by a pickup in volatility. We will be ready to pounce on opportunities both within and outside the portfolio. Our objective remains to produce attractive risk-adjusted returns over a full market cycle. We appreciate the AMG Yacktman Special Opportunities Fund shareholders who entrust us with their capital to pursue this goal.

This commentary reflects the viewpoints of the portfolio manager, Yacktman Asset Management LP, as of June 30, 2021, is not intended as a forecast or guarantee of future results, and is subject to change without notice.

Top Ten Holdings (%)[5] (as of 06/30/21)

Holding	% of Net Assets
Omni Bridgeway Ltd	6.85
Trecora Resources	6.75
Naked Wines PLC	6.41
Total Energy Services Inc	5.90
Italian Wine Brands SpA	5.28
Ocean Wilsons Holdings Ltd	4.21
Brickability Group PLC	3.27
B&S Group Sarl 144A	3.10
AMERCO	3.09
Sam Yung Trading Co Ltd	2.92
TOTAL %	47.78

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.

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.

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.

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 MSCI ACWI All Cap Index captures large, mid, small and micro-cap representation across certain Developed Markets (DM) countries and large, mid and small cap representation across certain Emerging Markets (EM) countries. The index is comprehensive, covering a significant percentage of the global equity investment opportunity set. Please go to msci.com for the most current list of countries represented by the index. Unlike the Fund, the index is unmanaged, 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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[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.

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