

Class N | TCMPIX

Class I | TQTIX

Class Z | TCMIX

Average Annual Returns (%)<sup>1</sup> (as of 12/31/18)

	QTD	YTD	1 yr	3 yr	Since Incpt.
TCMPX (Class N)	-19.97	-24.54	-24.54	1.33	6.86 <sup>2</sup>
TQTIX (Class I)	-19.91	-24.42	-24.42	-	-0.65 <sup>3</sup>
TCMIX (Class Z)	-19.84	-24.29	-24.29	1.58	7.08 <sup>2</sup>
MSCI EAFE Small Cap Index	-16.05	-17.89	-17.89	3.73	6.75 <sup>2</sup>

TCMPX (Class N) Expense Ratio (Gross/Net): 1.24%/1.24%

TQTIX (Class I) Expense Ratio (Gross/Net): 1.04%/1.04%

TCMIX (Class Z) Expense Ratio (Gross/Net): 0.99%/0.99%

*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 TimesSquare International Small Cap Fund** (Class N) returned -19.97% for the fourth quarter of 2018, compared with -16.05% for its benchmark, the MSCI EAFE Small Cap Index. For the 12-month period ending December 31, 2018, the Fund returned -24.54%, compared with the -17.89% return for the Index.

Global equity markets abruptly reversed course in the fourth quarter, leaving 2018 with the lowest annual returns since 2008<sup>4</sup>. Relative strength was found in the U.S. where the broad U.S. equity indexes posted annual results of -4% to -5%<sup>5</sup>, compared with -14% for non-U.S. equities<sup>6</sup>, and -15% for emerging markets<sup>7</sup>. Common threads worldwide

<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 and Class Z shares on January 2, 2013.

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

<sup>4</sup> Source: Bloomberg

<sup>5</sup> As represented by the S&P 500® Index (a market-weighted index based on the market capitalizations of 500 leading large capitalization stocks, as determined by S&P Dow Jones Indices LLC) and the Russell 3000® Index (a market-weighted index of the 3,000 largest U.S. stocks, as determined by FTSE Russell)

<sup>6</sup> As represented by the MSCI EAFE® Index (a market-weighted index of large and mid-cap stocks in developed markets, excluding the U.S. and Canada, as determined by MSCI Inc.)

<sup>7</sup> As represented by the MSCI Emerging Markets Index (a market-weighted index of large and mid-cap stocks in emerging markets, as determined by MSCI Inc.)

for the year included the generally weaker showings of small capitalization and value indexes within each equity market.

Unfortunately other shared traits were political impasses, increasing market volatilities, slowing economic activities, and rapidly falling commodity prices. Some of these had been present for longer than the last three months, but during the quarter it seemed that equity markets recognized all the issues at once. More specifically, 2018 ended with the U.S. federal government shut down over political differences between the President and Congress. Meanwhile, the U.K. parliament lacked consensus for its Brexit agreement with the European Union, which made a "no-deal separation" at the end of March more likely. France's 'yellow vest' protests against rising fuel taxes and living costs also adversely affected the market. In Italy, investors worried about the new government's borrowing and budget plans. Across the globe, the Japanese government revised down its fiscal 2018 gross domestic product (GDP) forecast to 0.9% from the previous projection of 1.5%.

## Quarterly Update

Amidst this turbulent market environment, the Fund underperformed the MSCI EAFE Small Cap benchmark in the fourth quarter of 2018. Our holdings in Japan continued to face difficulties this quarter. Europe also detracted from relative performance owing primarily to stock selection. Asia Pacific/Ex Japan holdings delivered mixed performance and slightly detracted while the Emerging Markets was an area of relative strength. Throughout this period, the MSCI EAFE Small Cap Index slipped -16%, worse than the -13% decline for the MSCI EAFE Index.

## Fund Update

### Regional Performance: Japan

Japan was the largest regional detractor to the Fund. We experienced broad-based weakness across our holdings, notably in the healthcare and real estate sectors.

Japanese housing-related names faced another quarter of weakness following the Suruga bank mortgage fraud scandal where falsified loan documents were processed for a struggling investment scheme. While our holdings have no involvement with that bank, negative sentiment weighed on the shares prices across this industry. Open House, a developer and builder of small and affordable family homes to first time buyers, fell -32%.

Dropping by -39% was Japan Lifeline, a distributor of third-party vascular medical devices as well as those designed internally. The company reported that sales of its newly launched drug-eluting stent, Osiris, had gotten off to a slow start which led management to trim its revenue and operating profit guidance. Longer-term, we continue to view the company as a beneficiary of Japan's changing demographics and aging population.

Slipping by -38% was the Fund's greatest detractor, en-Japan, a provider of internet job recruitment and consultation services. While companies

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across the sector are seeing favorable operating conditions and good earnings prospects, it appears that stocks that saw strong share price appreciation over the past half year were now seeing the sharpest declines—possibly from investors taking profits.

Our technology holdings also experienced headwinds due the prolonged slowdown in the semiconductor end market. Disco, the world's largest manufacturer of dicing and grinding equipment used in the production of semiconductors, retreated by -30% on its softer second half outlook attributed to order delays.

In the consumer discretionary sector, Izumi, a leading regional operator of supermarkets and hypermarkets in the Chugoku region of western Japan, dropped -30%. The company reported negative growth in the first half due to price competition and heavy rains hurting same-store-sales (SSS). Management expected SSS to normalize in the second half. In contrast, fellow consumer peer and discount store operator Don Quijote climbed 15% throughout the period that it was held. Don Quijote announced plans to buy the remaining 60% of UNY shares from FamilyMart while FamilyMart UNY planned to purchase 20% of Don Quijote shares. We viewed this as positive move in bolstering business collaboration but sold the holding as it surpassed the market capitalization guidelines for the strategy.

### Regional Performance: Europe

Europe was our second weakest region. Germany and Ireland detracted the most from performance but our holdings in France and Denmark helped relative performance.

In the UK, Electrocomponents (ECM) is global distributor of a broad range of electronics and industrial products. Strong results were met with profit taking, and its shares pulled back by -31%. While there are some short-term concerns on global trade, ECM's strong business model and sustainable advantage gives us confidence that the company will continue to outpace the market. Given the continuous shift towards digital distribution, ECM is well positioned relative to peers who are still distributing via catalogues. Delivering better relative performance with a -1% return—outpacing the benchmark average return in this region of -18%—was Auto Trader, an online market place for passenger vehicles in the UK. The company reported a first half beat and raised guidance giving credence to its defensive subscription model.

In neighboring Ireland, Dalata is a leading hotel operator. Recent monthly revenue per available room (RevPAR) remained strong despite a high base, illustrating the strong outlook of the Dublin market. However, shares declined -32% as market participants were concerned about peaking RevPAR levels due to additional industry capacity coming on line in 2019. We believe these concerns were overdone as Dalata's management team has deep experience and a strong reading of the market, giving us better visibility and high conviction in future earnings.

Deflating the Fund somewhat was German-based RIB Software, a software solutions provider for the construction industry. RIB's solutions

provide a much needed product in an industry that needs to catch up with IT evolution of the past years. Shares sold off -38% on worries on the monetization of its YTWO (with Flex) and MTWO (with Microsoft) joint ventures and management credibility has also deteriorated. To compound worries, Flex decided to exit its joint venture raising concerns on RIB's ability to execute on deals and we are reviewing our exposure to the name.

Making up for some lost ground from the previous quarter, Altran was a relative contributor in the fourth quarter. Shares in the France-based engineering and consulting services provider stabilized after the company delivered solid results. Although shares lost -7% during the quarter, the stock held up better against the benchmark. New to the Fund and also hailing from France is Rubis which provides bulk storage and distribution of petroleum products in Europe, the Caribbean, and Africa. The basic business model of Rubis is to consolidate a fragmented market into local and regional monopolies.

Moving to the Nordic region, Modern Times Group, the leading entertainment broadcasting company, retreated -10% but outperformed the index. MTG was upbeat on the progress of the pay TV business and the increasing value of media rights in eSports. In contrast, Hoist a leading pan-European player in the purchased bank debt market dropped -42% as the Swedish FSA sets new risk weights for purchased defaulted assets. Lastly, there were contributions from Danish insurer Topdanmark, a top relative contributor for the Fund as shares edged forward 2%. The company reported strong beats on both the topline and profit level as the company saw a low level of fire claims as many customers adopted protection measures against the warm Danish summer.

### Regional Performance: Asia/Pacific ex-Japan and the emerging markets

Our performance was mixed in Asia/Pacific Ex-Japan and our relative underweight to the region detracted from performance. With a -6% decline, shares in Steadfast, Australia's largest general insurance broker network, outperformed the benchmark's average return in this region of -12% as the company upgraded its 2019 earnings guidance.

Shifting to more beneficial areas of the Fund, the Emerging Markets contributed to performance. Shares in Malaysia-based AirAsia, the leading regional low cost airline, rose 9% as the company announced a special dividend, related to the sale of its leasing arm.

### Conclusion

Toward the end of 2018 concerns remain surrounding the growth trajectory of China, the U.K.'s path to Brexit in early 2019, and when Washington D.C. will return to work—as of this writing the federal government's shutdown was approaching the longest such period in history. However, our investment experience has shown us that these types of shifting markets can create investment opportunities. Thus no

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matter what 2019 brings we are steadfast that our disciplined analysis of business models and management teams should find quality companies.

*The views expressed represent the opinions of the TimesSquare Capital Management, LLC, as of December 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 12/31/18)

Holding	% of Net Assets
Topdanmark A/S	3.63
Modern Times Group MTG AB, Class B	3.21
ABC-Mart Inc	2.96
Interpump Group SpA	2.80
Electrocomponents PLC	2.76
Horiba Ltd	2.65
Steadfast Group Ltd	2.54
Auto Trader Group PLC 144A	2.49
Izumi Co Ltd	2.45
Melrose Industries PLC	2.38
TOTAL %	27.87

## 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.*

All investments are subject to risk including possible loss of principal.

Investments in small-capitalization companies are subject to risks such as erratic earnings patterns, competitive conditions, limited earnings history, and a reliance on one or a limited number of products.

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.

The Fund is subject to the risks associated with investments in emerging markets, such as erratic earnings patterns, economic and political

<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.

instability, changing exchange controls, limitations on repatriation of foreign capital, and changes in local governmental attitudes toward private investment, possibly leading to nationalization or confiscation of investor assets.

The Fund is subject to currency risk resulting from fluctuations in exchange rates that may affect the total loss or gain on a non-U.S. Dollar security when converted back to U.S. Dollars.

The Fund may invest in derivatives, such as options and futures; the complexity and rapidly changing structure of derivatives markets may increase the possibility of market losses.

A short-term redemption fee of 2% will be charged on shares redeemed within 60 days of purchase. Effective March 1, 2019, the Fund will eliminate this redemption fee.

The MSCI EAFE Small Cap Index is an equity index that captures small-cap representation across developed-market countries around the world, excluding the U.S. and Canada. With 2,178 constituents, the Index covers approximately 14% of the free-float-adjusted market capitalization in each country.

The MSCI EAFE Index is an equity index that captures large- and mid-cap representation across developed-market countries around the world, excluding the U.S. and Canada. With 925 constituents, the Index covers approximately 85% of the free-float-adjusted market capitalization in each country.

The MSCI Emerging Markets Index captures large- and mid-cap representation across 23 emerging-market (EM) countries. With 837 constituents, the Index covers approximately 85% of the free-float-adjusted market capitalization in each country.

Please go to [msci.com](http://msci.com) for the most current list of countries represented by the MSCI indices.

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The S&P 500<sup>®</sup> Index is a 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

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# AMG TimesSquare International Small Cap Fund

## COMMENTARY

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that the investment recommendations we make in the future will be profitable.

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