Q4 | 2018 AMG Yacktman Fund

COMMENTARY

ASSET CLASS | LARGE CAP

Class I | YACKX

YACKTMAN ASSET MANAGEMENT

Average Annual Returns (%)[1,2] (as of 12/31/18)

	QTD	YTD	1 yr	3 yr	5 yr	10 yr	15 Yr	20 Yr	Since Incpt.[3]
YACKX (Class I)	-3.80	2.69	2.69	10.52	7.24	14.55	9.19	9.60	10.17
S&P 500® Index	-13.52	-4.38	-4.38	9.26	8.49	13.12	7.77	5.62	9.20
Russell 1000® Value Index[4]	-11.72	-8.27	-8.27	6.95	5.95	11.18	7.04	6.16	9.39

YACKX (Class I) Expense Ratio (Gross/Net): 0.76%/0.76%

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.

In the fourth quarter, the **AMG Yacktman Fund** (the Fund) declined -3.80% while the S&P 500® Index dropped -13.52%. For the year, the Fund was up 2.69% compared to the S&P 500, which declined by -4.38%. The Russell 1000® Value Index, which we are introducing as a secondary benchmark for the fund given our value approach, declined -11.72% for the quarter and -8.27% for the year.

While we are pleased with the short-term returns, what really matters is long-term results. In the last 20 years, the Fund has compounded at 9.6% annually compared to the S&P 500's 5.62% return. We achieved this outperformance with a keen eye on risk, while, at times, carrying excess cash at levels that are similar to where they are today. Although many have given up active management to purchase index funds because they have been told it is nearly impossible for a manager to outperform over long periods of time, we believe our record refutes an all-passive approach.

We think protecting well in the down markets is one of the most crucial aspects to achieving superior long-term risk-adjusted returns. We are not alone. In a speech in 2015, Stanley Druckenmiller, one of the most successful hedge fund managers of all time, said about evaluating a potential manager, "When I look at their record, I immediately go to the bear markets and see how they did." When the market declined nearly 20% between September 21 and December 24, the Fund declined 7.4%.

In the more prolonged declines of 2008-2009 and 2000-2002, we also delivered solid outperformance.

Year	AMG Yacktman Fund[2]	S&P 500 Index
2008	-26.05%	-36.99%
2009	59.31%	26.46%
Total Return	17.81%	-20.32%
Value of $10,000	$11,780	$7,968
2000	13.57%	-9.09%
2001	19.46%	-11.88%
2002	11.41%	-22.11%
Total Return	51.15%	-37.60%
Value of $10,000	$15,115	$7,280

Past performance is not a guarantee of future results.

Contributors	Detractors
Procter and Gamble (P&G)	Samsung Electronics (Samsung)
Twenty-First Century Fox (Fox)	Oracle Corporation (Oracle)
The Coca-Cola Company (Coca Cola)	Microsoft Corporation (Microsoft)

Consumer staples shares were generally stronger during the fourth quarter as businesses with consistency and quality were viewed as a relative safe haven during the period of market stress. Procter & Gamble's shares were a standout in the staples group after reporting the highest quarterly organic sales growth since 2012, pointing to signs that, after many years of restructuring, a turnaround may be taking hold.

Fox's shares were strong during the quarter as the company moved closer to closing its transaction to sell key assets to Disney. In the fourth quarter, the transaction received key antitrust approval from China, something which had been a concern to some given the current state of trade relations. We think the transaction will close some time during the first quarter, and there remains solid value in the shares at current prices. Fox's execution continued to be solid, helped by a turnaround in football ratings, benefiting Fox Network, which recently added Thursday night games to its schedule.

Similar to P&G, Coca-Cola's shares outperformed and delivered positive returns during the quarter, after reporting improved business results. Over the last several years, we think Coca-Cola's management has done and

[1] Returns for periods less than one year are not annualized.
[2] The performance information shown for periods prior to June 29, 2012 is that of the predecessor to the Fund, The Yacktman Fund, which was reorganized into the AMG Yacktman Fund on June 29, 2012, and was managed by Yacktman Asset Management LP with the same investment policies as those of the predecessor Fund.
[3] Since the inception of the Fund on July 6, 1992.
[4] Effective on October 1, 2018, the Fund added the Russell 1000® Value Index as a secondary benchmark.

excellent job of re-orienting the company towards overall beverage consumption and reducing its exposure to carbonated soft drinks.

Detractors - Tech

Having delivered strong stock returns in the past few years, technology shares declined sharply in the fourth quarter.

Samsung's shares retreated due to stronger evidence of short-term weakness in the memory semiconductor businesses as well as the general declines in technology stocks. Historically, the memory business (DRAM and NAND) has been brutally cyclical even though the overall trend has been one of solid growth. While the cyclicality has not been eliminated, we think the current down cycle should be much more benign and fairly short in duration for DRAM, as today only three vendors control more than 90% of the market and all are cutting back on capacity additions. Over time, we see strong growth in the industry, as many of the advances in technology should require huge amounts of memory semiconductors.

We think Samsung's shares have far overreacted to the down cycle and the valuation makes it an exceptional investment opportunity, and made additional purchases during the quarter on the price declines. Samsung's preferred shares represent one of the least expensive investments in a high-quality large company we have ever seen, selling below book value and having more than half of the market cap in net cash/investments/hidden assets. While earnings will be weaker in 2019, the stock trades at less than three times our expectations for this year's earnings after subtracting the excess assets not required to produce the profits.

Oracle and Microsoft also traded off with general weakness in the tech sector. We think Oracle remains inexpensive and is making a slow but effective transition to the cloud, something Microsoft has already done, helping Microsoft's stock to more than triple in the last six years. Microsoft has continued to produce solid results, and despite the fourth quarter pullback in the shares, it delivered strong returns in 2018.

Other

During the quarter, we increased holdings in some of our favorite positions like Samsung Electronics Preferred (Samsung) and Bollore SA (Bollore). While we would have enjoyed deploying more cash in new bargains, after nearly a decade of a rising market, driven in recent years by multiple expansion, the sharp pullback failed to create significant new opportunities.

Johnson & Johnson's (J&J) shares declined modestly during the quarter, dropping about 10% on December 14 due to a Reuters report which alleged J&J knew about asbestos risks in its baby powder for decades. The company, which is currently defending these charges in many lawsuits, disputes these claims. We are confident that J&J has the financial strength to successfully manage through the issue.

Conclusion

Our goal is to provide solid risk-adjusted returns over time. We are pleased that fourth quarter results protected fund holders far better than owning the S&P 500 Index. We will continue to work hard to deliver results over time for fund holders, and, as always, will be patient, objective, and diligent when managing the AMG Yacktman Fund.

The views expressed represent the opinions of the Yacktman Asset Management LP, 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 (%)[5] (as of 12/31/18)

Holding	% of Net Assets
Samsung Electronics Co Ltd Preferred	8.51
Procter & Gamble Co	7.34
Twenty-First Century Fox Inc, Class B	5.39
PepsiCo Inc	4.72
Coca-Cola Co	4.71
Oracle Corp	4.62
Johnson & Johnson	4.52
Twenty-First Century Fox Inc, Class A	3.20
Microsoft Corp	2.84
Bollore SA	2.68
TOTAL %	48.53

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 60 days. Effective March 1, 2019, the Fund will eliminate this redemption fee.

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.

[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.

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.

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 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.

The Russell 1000® Value Index is a market capitalization-weighted index of value-oriented stocks that measures the performance of those Russell 1000® companies with lower price-to-book ratios and lower forecasted growth values.

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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