AMG River Road Dividend All Cap Value I ARIDX

A defensive approach makes this a strong offering.

Morningstar's Take ARIDX

Morningstar Rating	★★
Morningstar Analyst Rating	Bronze
Morningstar Pillars	
Process	Above Average
Performance	—
People	Above Average
Parent	Average
Price	—

Role In Portfolio
Supporting Player

Fund Performance

Year	Total Return (%)	+/- Category
YTD	17.62	-4.45
2020	-1.88	-4.79
2019	23.37	-1.67
2018	-7.33	1.20
2017	9.05	-6.89

Data through 10-31-21

11-12-21 | by Tony Thomas, David Carey

AMG River Road Dividend All-Cap Value's experienced management team and defensive approach merit a Morningstar Analyst Rating of Bronze across all mutual fund share classes, including its Europe-based fund, and an upgrade to Silver for its separately managed account version.

Henry Sanders, who has been on the strategy since its 2003 inception and is a co-founder of River Road, leads the team. Thomas Forsha joined Sanders on the management team in June 2007 and brings 23 years of industry experience. The team promoted Andrew McIntosh to associate portfolio manager in April 2018 and appears to be Sanders' successor should Sanders step down. (That's not anticipated soon.) An adequate eight-member analyst team provides support.

Following a period of disappointing performance, the team made a reasonable tweak to its process that took effect in October 2021. Previously, the team invested only in stocks yielding at least 2% and had increased their dividend in the prior 12 months. Now, the team may invest in companies yielding less than 2% with an increase in their dividend in the previous 24 months. While it is yet to be seen how this will affect the portfolio, the change will broaden the investable universe considerably. This should allow the team to invest in companies that are early in their business cycle that might offer higher dividend growth and more significant stock-price appreciation. That said, the team still aims to generate a yield that's 150% of the Russell 3000 Value Index's before fees.

This quality focus, combined with an effective sell discipline, gives the strategy a defensive posture. Since Sanders' start on the U.S. mutual fund in June 2005, its Institutional share class has captured only 79% of the Russell 1000 Value Index's declines through October 2021. Most of the fund's long-term success is rooted in its outperformance of the index during the global financial crisis. It has struggled more recently, however: It lagged in 2020's first-quarter sell-off when its energy holdings dropped sharply on lower demand.

David Carey contributed to this report.

Process Pillar Above Average | Tony Thomas, David Carey 11/12/2021
The fund's mostly defensive, dividend-oriented strategy warrants an Above Average Process rating.

The managers look for value wherever they can find it, investing across the market-cap spectrum. They favor firms with strong business models and solid balances trading at discount to the team's price targets. They invest in companies that pay a dividend, with the goal of delivering a yield 150% higher than that of the Russell 3000 Value Index before fees.

In addition to beating the index's yield, the managers also try to top the index on total returns by typically investing 25%-50% in core large-caps with 2%-4% yields, 20%-35% in "high alpha" stocks with 3%-6% yields, and 25%-40% in high-yielding stocks (5%-plus yield). An October 2021 change allows the strategy to purchase companies with yields less than 2%. It is yet to be seen how this will affect the overall portfolio, but the managers expect to continue meeting their overall yield target.

The managers' discipline helps them avoid value traps and navigate market drawdowns. They won't add to a losing position, for example, and they'll sell if they become concerned about a firm's ability or willingness to grow its dividend. They also review stocks that hit the team's price targets. The managers look to trim stocks trading at a 10% premium to those targets and try to sell before positions reach a 20% premium.

The managers look for value across both sectors and market caps, which has led to a distinctive portfolio. The U.S. mutual fund's September 2021 portfolio had only 51 holdings, among the fewest in its history, owing to what the managers said was a shrinking opportunity set before opening their doors to stocks with sub-2% yields. The all-cap portfolio's market-cap allocation is roughly in line with the Russell 1000 Value Index's, with its greatest variation coming in its 7.8% small-cap allocation versus the index's 3.6%. This small-cap stake helped keep the portfolio's average market cap of $47.9 billion well below the index's $73 billion.

A lack of opportunities and poor stock-picking in high-yielding companies has also changed the structure of the portfolio. The portfolio's allocation

to its high-yield bucket has steadily decreased at the expense of core holdings. As of September, the portfolio's core holdings were 69% of assets according to the managers, while high-yielding names held just 8.2%.

Not surprisingly, the portfolio is overweight in utilities, which often pay juicy dividends. The fund's 9.4% allocation to that sector is nearly double the index's weight. The portfolio also continues to be overweight in energy with a focus on pipelines because of what the managers see as more stable cash flows than other energy businesses.

Performance Pillar | Tony Thomas, David Carey 11/12/2021
This fund has a decent long-term record. Since the start of Henry Sanders' tenure in June 2005, the U.S. mutual fund's Institutional share class returned 8.4% annualized through October 2021, edging the Russell 1000 Value Index's 8.3%. The fund's 13.5% standard deviation was also much lower than the index's 15.6% mark over that period, resulting in excellent risk-adjusted returns. The separate account posted similar results.

The strategy's focus on mostly stable dividend-paying stocks has helped it hold up better in market downturns. In fact, the fund captured only 79% of the Russell 1000 Value Index's declines over Sanders' tenure. But dividend-paying stocks don't always do well in rallies, and this fund has captured just 86% of the market's upside over that same period. Relative to large-value Morningstar Category peers, both sector allocations and stock picks have weighed on performance over the past 10 years. An underweighting in healthcare and an overweighting in energy dragged on performance during that time. A decent stake in small caps also hurt, as large-cap companies tended to fare better over that period.

The fund didn't hold up quite as well as expected in 2020's first-quarter slide. That was largely because of the fund's energy overweighting, as energy stocks suffered sharp drops amid unprecedented economic shutdowns and curtailed demand.

People Pillar ◉ Above Average | Tony Thomas, David Carey 11/12/2021
The managers' experience and stability should serve this strategy well and supports an Above Average People rating. Henry Sanders, who co-founded River Road in 2005, has managed this strategy since its 2003 inception. Tom Forsha joined River Road in 2005 and became a manager here in June 2007. Andrew McIntosh joined the firm as an equity analyst in 2011 and became associate portfolio manager here in 2018. He appears to be a good fit should Sanders decide to retire (which is not expected now). The trio averages 24 years of industry experience.

An eight-member analyst bench supports the managers. It's had several changes recently, but they shouldn't affect this strategy too much. Three analysts became associate portfolio managers on other strategies within the past year. This doesn't gut the research team, though, as the associate managers continue to cover stocks and will wind down their coverage over several years. This should help this strategy's managers cover their larger investable universe that now includes lower-yielding stocks. All told, the research team (including the three associate portfolio managers) averages a decent 10 years of industry experience.

The managers are well-aligned with investors' interests: Sanders and Forsha each have more than $1 million invested in the fund, while McIntosh (the newest manager) has $100,001-$500,000 invested.

Parent Pillar ◉ Average | Linda Abu Mushrefova 11/04/2020
AMG Funds has some strong affiliates, but a lack of consistency in its offerings and recent lineup changes damp conviction. It maintains an Average Parent rating.

While AMG's stronger affiliates have held up relatively well, net outflows have caused the firm and its affiliates to liquidate or merge subscale offerings, including AMG GW&K US Small Cap Growth and AMG River Road Dividend All Cap Value. In another instance, affiliate Chicago Equity Partners shuttered its business entirely, spurring a subadvisor and name change on AMG GW&K Global Allocation. Recent challenges in AMG's quantitative offerings have contributed most substantially to outflows, with shops such as AQR suffering the most.

Historically, AMG has grown by acquisition, but the firm has seen a dry spell in new partnerships, and it has thus recently closed far more offerings than it has introduced. Leadership at the firm plans to change that, though, and it has made some smaller investments more recently. It acquired a minority equity interest in Comvest Partners, a middle-market private equity and credit investment firm, in 2020. It also made an investment in startup Inclusive Capital Partners (a firm with an environmental, social, and governance focus), founded by ValueAct (another affiliate) founder Jeff Ubben. AMG's recent investments reflect its continued focus on alternative strategies and newer emphasis on ESG.

Price Pillar | Tony Thomas, David Carey 11/12/2021
It's critical to evaluate expenses, as they come directly out of returns. The share class on this report levies a fee that ranks in its Morningstar category's middle quintile. That's not great, but based on our assessment of the fund's People, Process and Parent pillars in the context of these fees, we think this share class will still be able to deliver positive alpha relative to the category benchmark index, explaining its Morningstar Analyst Rating of Bronze.

Average annual returns (%)[1] (as of 09/30/21)

	Inception	Q3	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Incpt
ARDEX (Class N)	06/28/05	-2.16	12.52	28.01	6.40	7.75	10.56	7.95
ARIDX (Class I)	06/28/07	-2.18	12.65	28.24	6.67	8.01	10.84	6.84
ARZDX (Class Z)	09/29/17	-2.17	12.69	28.30	6.72	-	-	7.09
Benchmark	-	0.93	16.58	36.64	9.94	10.94	13.48	8.01[2]

Expense Ratios (gross/net): Class N 1.10% / 1.07%, Class I 0.85% / 0.82%, Class Z 0.81% / 0.78%

Top ten holdings (%)[3] (as of 09/30/21)

Holding	% of Net Assets
Comcast Corp, Class A	3.68
United Parcel Service Inc, Class B	3.57
Corning Inc	3.38
Truist Financial Corp	3.35
AES Corp	3.16
Verizon Communications Inc	3.09
US Bancorp	3.03
Cisco Systems Inc	3.01
Target Corp	2.80
Bristol-Myers Squibb Co	2.66
TOTAL %	31.72

[1] Returns for periods less than one year are not annualized.

[2] Since the inception of Class N shares on June 28, 2005.

[3] 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.

The performance data shown represents past performance. Past performance is not a 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.

Disclosure

Investors should carefully consider the fund'sinvestment objectives, risks, charges, and expenses before investing. Forthis and other information, please call 800.835.3879 or download afree prospectus. Read it carefully before investing or sending money.

Past performance is no guarantee of future results.

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.

Investing in PTPs (including master limited partnerships) involves risks in addition to those typically associated with publicly traded companies. PTPs are exposed to the risks of their underlying assets, which in many cases includes the same types of risks as energy and natural resources companies. PTPs are also subject to capital markets risk. PTPs may lose their partnership status for tax purposes. The Fund's status as a regulated investment company may be jeopardized if it does not appropriately limit such investments in PTPs or if such investments are recharacterized for tax purposes.

An issuer of a security may be unwilling or unable to pay income on a security. Common stocks do not assure dividend payments and are paid only when declared by an issuer's board of directors.

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 special risk considerations similar to those associated with the direct ownership of real estate. Real estate valuations may be subject to factors such as changing general and local economic, financial, competitive, and environmental conditions.

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. 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.

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 Russell 3000® Value Index measures the performance of the broad value segment of the U.S. equity universe. It includes those Russell 3000® companies with lower price-to-book ratios and lower forecasted growth values. Unlike the Fund, indices are unmanaged, are not available for investment and do not incur expenses.

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For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its three-, five-, and ten-year (if applicable) Morningstar Rating metrics. Morningstar Rating is for the share class indicated only (see ticker); other share classes may have different performance characteristics. The Ranking may reflect the waiver of all or a portion of the fund'sfees. Without such waiver, the Rankings may have been lower.
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The Manager Research Group evaluates funds based on five key pillars, which are process, performance, people, parent, and price. The Manager Research Group uses this five-pillar evaluation to determine how they believe funds are likely to perform relative to a benchmark over the long term on a risk adjusted basis. They consider quantitative and qualitative factors in their research. For actively managed strategies, people and process each receive a 45% weighting in their analysis, while parent receives a 10% weighting. For passive strategies, process receives an 80% weighting, while people and parent each receive a 10% weighting. For both active and passive strategies, performance has no explicit weight as it is incorporated into the analysis of people and process; price at the share-class level (where applicable) is directly subtracted from anexpected gross alpha estimate derived from the analysis of the other pillars. The impact of the weighted pillar scores for people, process and parent on the final Analyst Rating is further modified by a measure of the dispersion of historical alphas among relevant peers. For certain peer groups where standard benchmarking is not applicable, primarily peer groups of funds using alternative investment strategies, the modification by alpha dispersion is not used.

The Analyst Rating scale is Gold, Silver, Bronze, Neutral, and Negative. For active funds, a Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's expectation that an active fund will be able to deliver positive alpha net of fees relative to the standard benchmark index assigned to the Morningstar category. The level of the rating relates to the level of expected positive net alpha relative to Morningstar category peers for active funds. For passive funds, a Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's expectation that a fund will be able to deliver a higher alpha net of fees than the lesser of the relevant Morningstar category median or 0. The level of the rating relates to the level of expected net alpha relative to Morningstar category peers for passive funds. For certain peer groups where standard benchmarking is not applicable, primarily peer groups of funds using alternative investment strategies, a Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's expectation that a fund will deliver a weighted pillar score above a predetermined threshold within its peer group. Analyst Ratings ultimately reflect the Manager Research Group's overall assessment, are overseen by an Analyst Rating Committee, and are continuously monitored and reevaluated at least every 14 months.
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