

AMG Yacktman Special Opportunities Fund Mid-Year Update

Q2 2024

Class N | **YASLX** Class I | **YASSX**

Average Annual Returns (%)¹

as of 06/30/24

	Q2	YTD	1 Yr	3 Yr	5 Yr	Since Inception
YASSX (Class I)	0.28	2.06	3.90	-3.13	5.62	6.99 ²
YASLX (Class Z)	0.28	2.06	4.01	-3.04	5.71	5.67 ³
MSCI ACWI All Cap Index	2.34	10.20	18.29	4.60	10.31	8.98 ³

YASSX (Class I) Expense Ratio (Gross/Net)⁴: 1.19%/1.13%

YASLX (Class Z) Expense Ratio (Gross/Net)⁴: 1.09%/1.03%

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, 2025, 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.

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 800.548.4539 or visit our website at wealth.amg.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, 2024, **AMG Yacktman Special Opportunities Fund** (the "Fund") Class I shares returned 2.06%, behind the 10.20% increase of the MSCI ACWI All Cap Index.

The Fund's Class Z shares were launched ten years ago on June 30, 2024 (Class I shares followed one year later, June 30, 2015, as part of broader distribution). Since inception, the Fund has performed well versus its peers. Of course, we would have preferred to perform better, especially from an absolute return standpoint, but persevering over ten years feels like an accomplishment itself (many funds never make it this far).

The last few years have been more challenging. While making slow progress, the Fund has not yet recovered to the high-water mark set in early 2021. This stretch mirrors the performance of international small-cap indices, which have also struggled over the past three years. Our strategy has not changed. We invest like business owners, emphasize cash flow and downside mitigation, and forecast out over the long term. Market participants have seemed to ignore these concepts lately in a market driven by trading and speculation.

Valuations for the broad market are at or near historic highs. Risks are elevated. Artificial intelligence ("AI") has monopolized investor attention (and capital). A small handful of stocks are holding up market returns. Yet, despite the poor combination of factors for the broad market, we do not feel that way about the Fund's prospects. Our enthusiasm in the Fund's holdings has only grown as valuations have compressed in our favorite ideas. We felt our stocks were inexpensive before. Now, they are cheaper on both an absolute basis and relative to a market where valuations have only climbed higher.

We remain focused on our core mission: buying above average businesses at below average prices and paying attention to risks. While this approach has not been popular recently, we feel these are necessary steps as we seek to preserve capital over the longer term. Popularity is often taken too far. It sure feels like the financial market is trying very hard to stay cool.

Ten Years

Looking back, it has been a one-directional market for most of the last decade-plus...and precisely the opposite of our style of investing. Comparing index returns over the past ten years tells the story:

Annualized Returns (10 years ended 06/30/24)	
S&P 500 Index	12.9%
MSCI ACWI All Cap Index	8.1%
MSCI ACWI ex USA Small Cap Index	4.4%

The winners have been U.S., large-cap, and growth. Contrast that with the Fund's heavy exposure to international, small-cap, and value. Currency has been another headwind given the Fund's unhedged overweight to international markets. A basket of the developed market foreign exchange rates against the U.S. Dollar has depreciated by an average of 33% over this decade. Passive investing has continued its relentless rise. By design, this capital has flowed into the same areas (large-cap indices) month after month without consideration of valuation or risk. We think there are flaws with that strategy long-term. Add a global pandemic temporarily shutting down the world—obliterating or boosting certain sectors somewhat at random—and there has been no shortage of turmoil to navigate this decade.

While there were clear external headwinds, we are always trying to improve our decision-making. Re-evaluation means continuing to improve and upgrade our process. We recently watched the third season of the Hulu/FX show *The Bear*. Although a chaotic restaurant kitchen is far from our work environment ("library-ish" is an apt description), one episode stood out. Carmy, the show's head chef, decided to make a list of "non-negotiables" on what makes exceptional restaurants. The parallels to investing were straightforward: everything from "respect tradition" (akin to understanding market history and the concept of base rates) to "less is more" (culling unnecessary data points to identify core business drivers). This idea of addition by subtraction has been a strong reminder as we reflect on the past ten years. In the overabundance of financial information and news flow, cutting out noise to focus solely on the essential elements of an investment process is crucial. In our inaugural Fund letter, we outlined some of the "non-negotiables" in our investment process:

- **Absolute value** – we invest in securities we believe are undervalued on an absolute basis (i.e. based on the underlying or intrinsic value of the business)
- **Concentration** – we concentrate in our top positions so that our "best ideas" have a meaningful impact
- **Risk-adjusted returns** – we focus on both the return and risk side of the investment, with the goal of minimizing the risk of permanent capital loss by demanding a large margin of safety in our holdings

- **Flexible mandate** – we invest across a broad investment universe, as a wide opportunity set maximizes our chances of finding investments that meet our strict risk/reward criteria

Ten years on, they are still "non-negotiable." Our long-term approach has not wavered. In fact, out of 47 total holdings, 10 companies have been held since inception. We have navigated these past ten years while holding an eclectic and differentiated portfolio. The Fund still looks markedly different from the benchmark and peers (in industry jargon, the Fund's active share has been 99.92% over the past ten years). Our winners since inception have come in a wide variety of investments, everything from large cap stocks to high yield bonds, quasi-liquidations, high-quality compounders, over-the-counter listed securities and cyclical/commodity businesses. We have invested across numerous geographies, with 14 countries currently represented in the Fund (non-U.S. securities make up 75.9% of the portfolio). Our median market cap is \$231 million, far smaller in comparison to our peers and the market.

Across the mutual fund space, that combination is rare, maybe even uniquely so. We believe success over full market cycles requires a strong belief in an investment philosophy. We acknowledge where we can be wrong and adapt as needed, but we also stick to the "non-negotiables." We have invested in our own way; just like Carmy.

Contributors / Detractors

The top three contributors for the first six months ended June 30, 2024, were Total Energy Services, Arrow Exploration, and Hargreaves Services. All three are classified as energy stocks, as we continue to find value in an area still shunned by many investors.

Total Energy has been by far the largest contributor to performance over the last three years as it recovers from COVID-19 lows. The oilfield service firm has followed the same playbook in a cyclical industry: keep a conservative balance sheet, make opportunistic acquisitions, prioritize return on invested capital, and pay out excess funds to shareholders. Helped by strong earnings growth and debt paydown, Total Energy continues to trade near trough multiples despite the stock increasing almost 5x from its 2020 lows. Arrow Exploration is an upstream oil & gas company that is producing oil in Colombia's onshore Llanos basin. New management rescued the company a few years ago and has been systematically growing production while maintaining a net cash balance sheet. Arrow's wells have some of the best paybacks and return metrics we've ever seen. The share price rallied on the company's first horizontal well result, which offers the potential for a step-change in Arrow's growth and economics. While still classified in the energy sector, Hargreaves has shifted its business model to now three distinct parts: material handling and service contracts, a real estate portfolio (left over from its legacy coal operations), and a German joint venture for industrial and commodity trading assets. The stock still trades at a discount

to book value with substantial upside embedded in its assets. We expect further value unlock over the coming year or two.

The top three detractors were Delfi, America's Car-Mart, and U-Haul. Unlike the strong energy performers above, all three are more consumer oriented.

Delfi, the leading confectionery company in Indonesia, saw its share price correct in response to fears over input costs and margins. Due to challenges in the key producing regions, cocoa prices spiked more than 4x versus early 2023 before falling back a bit more recently. While we expect some margin pressure in the coming years, Delfi has long-term forward agreements with its suppliers that should insulate it from the worst of the recent price spike. We believe it remains an excellent consumer business at a bargain price. Car-Mart is no stranger to the portfolio as we've had success with the stock in the past. The increase in used car prices and overall inflationary environment has been hard on Car-Mart's core consumer. Management is working hard to restore loan economics to prior levels after disruptions from COVID-19 upended the market. We believe company results will surprise over time as the resilient nature of the business model shines through. U-Haul was an extremely strong performer in the last two months of 2023 and gave back some of those gains in the first part of 2024. U-Haul is often lumped in with more interest rate sensitive stocks due to its self-storage real estate. We think the market continues to underappreciate the do-it-yourself (DIY) truck rental side, as this combination of rental and storage makes U-Haul unique among its self-storage peers.

Conclusion

Investing is a long game. We have been investing with the same investment philosophy for ten years now. We remain firm in our conviction that a patient, value-oriented approach focused on fundamental analysis and risk management is the key to long-term success. Our goal remains to produce attractive risk-adjusted returns over a full market cycle. In an unusual twist of timing, we haven't really seen a full cycle yet—it's largely been a one-way market for the Fund's entire existence. We are confident that will change. It always does. We wrote in one of our earliest letters that "our dedicated and understanding group of shareholders is one of our biggest advantages." Like our investment principles, that remains true throughout this decade. We appreciate the AMG Yacktman Special Opportunities Fund shareholders who entrust us with their capital.

The views expressed represent the opinions of Yacktman Asset Management LP, as of June 30, 2024, are not intended as a forecast or guarantee of future results, and are subject to change without notice

Top Ten Holdings (%)⁵ as of 06/30/24

Holding	% of Net Assets
Omni Bridgeway Ltd	7.44
Legacy Housing Corp	5.50
Total Energy Services Inc	5.44
Cie de L'Odet SE	4.65
Arrow Exploration Corp	4.46
Italian Wine Brands SpA	4.43
Fila SpA	4.40
Texhong International Group Ltd	4.33
U-Haul Holding Co Non-Voting	4.20
Macfarlane Group PLC	4.16
TOTAL %	49.00

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. For a list of all holdings within the fund, please visit wealth.amg.com.

Disclosures

Investors should carefully consider the fund's investment objectives, risks, charges, and expenses before investing. For this and other information, please call 800.548.4539 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.

Refer to the prospectus at wealth.amg.com to see the full list of applicable fund risks.

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.

The MSCI ACWI ex USA Small Cap Index is a free float-adjusted market capitalization weighted index that is designed to measure the small capitalization equity market performance of certain developed (excluding the U.S.) and emerging markets. Please go to msci.com for the most current list of countries represented by the index.

The S&P 500® 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.

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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