

AMG Yacktman Special Opportunities Fund Mid-Year Update

December 31, 2021

SEMI-ANNUAL INVESTOR LETTER

Class I | YASSX

Class Z | YASLX



Average Annual Returns (%)¹ (as of 12/31/21)

	Q4	YTD	1 yr	3 yr	5 yr	Since Inct.
YASSX (Class I)	4.15	24.30	24.30	15.56	13.28	11.39 ²
YASLX (Class Z)	4.22	24.42	24.42	15.68	13.40	8.95 ³
MSCI All Country World Index All Cap	6.03	18.21	18.21	20.19	14.10	9.70 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 twelve months ending December 31, 2021, **AMG Yacktman Special Opportunities Fund** (the "Fund") Class I shares returned 24.30%, ahead of the 18.2% return of the MSCI All Country World All Cap Index ("ACWI").

Sharp-eyed readers will notice that full year performance was roughly the same as the halfway point in June. 2021 was a year of two halves, with a strong start and then flat performance in a choppy last six months. The market's increased concentration in top holdings (largely mega-cap tech in the U.S.) hid a tremendous amount of pain under the surface. It is not hard to find popular and well-known companies down -(30)% or more from recent highs. The sell-off in the fast growth "story" stocks has been even more brutal. While many investors have been conditioned to "buy the dips" over the past decade, a temporary dip can easily become a chasm if the winds of sentiment suddenly change. It is too early to tell whether this is the start of a more pronounced rotation, but we believe the Fund is set up to capitalize on any shift. Our preference for small, international and value stocks has been a persistent headwind in the last several years (despite good business performance) so that any tailwind would be a

welcome change. We believe our collection of above average businesses trading at discounted valuations remains a good combination no matter the macro environment.

Portfolio Review

News headlines tend to highlight the wild price swings in the market and individual stocks. The day-to-day reality is more mundane. Businesses and the people operating them tend to create value with incremental improvements each day. This progress eventually shows up in higher future cash flows. The essence of value investing is buying those future cash flows at a discount. While we would prefer that prices catch up to our value estimates right away, sometimes the realization of underlying value comes in fits and starts. In 2021, two of our positions were acquired (Aggreko and Fjord), and a third (a debt investment in Colabor) was paid off in full. Another two acquisitions were announced toward the end of the year (Utoc and Vivo Energy). With around fifty positions in the Fund, that equates to 10% of the holdings being crystallized by corporate actions this year. Two of these positions were held since Fund inception, which only reinforces that value tends to surface for patient investors one way or another.

Our cash position ended the year at 4.0%. That is well within the historical range although higher than in recent years. Two of the announced acquisitions (mentioned above) will soon convert to cash, further bolstering reserves. Cash will ebb and flow as a byproduct of the investment process, and we have a growing list of potential candidates to deploy these funds. Keeping up the pipeline of investment candidates is critical, but new ideas must compete for capital with existing positions. Lately we have found the greatest source of potential future returns in some of our top ideas. These companies also benefit from our historical relationship, often over years of ownership, which provides valuable context and familiarity. We ended 2021 with 51 positions. The top five positions now make up 37.0% of the Fund, a much higher percentage than most mutual funds peers. This portfolio concentration represents our strong conviction in maximizing ideas with outsized risk/rewards. Risk is managed at the position level and mitigated by the diversification across our top weightings. The top five holdings are spread out across litigation finance, oil & gas services, niche chemicals, manufactured homes, and wine distribution—an eclectic mix!

Finding the right mix of seasoned investments and fresh ideas is an important part of our portfolio management process. Our "go-anywhere" investing approach provides a competitive advantage in otherwise expensive markets. Many other funds do not have such flexibility, because of either strategy mandates or manager preferences. Our investment process is designed to capitalize on this edge.

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.

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Turning over Rocks in Both Sales and Investing

Our investment time horizon is influenced by a focus on fundamental business performance rather than stock price movements. This is reflected in a portfolio turnover that is much lower than peers (notwithstanding the recent acquisition activity!). At the same time, we strive to avoid stale positions by using a wide lens in search of new ideas. We have likened our process to “turning over rocks” in past letters, and we have been flipping furiously in these volatile markets. As we reflected on the topic this year, we also thought about the parallels between our investment process and our personal history in another field—sales.

One of our part-time jobs as a teenager was selling local newspaper subscriptions door-to-door. This involved knocking on thousands of doors, shaking off hundreds of noes, and even running from the occasional unfriendly pet. We feel there are inherent skills that are underappreciated about prospecting, the front end of a sales cycle. These include a dogged determination, competitive drive, and the ability to handle emotions in sometimes volatile situations. It also involved doing the job when it was dark, snowy, and freezing outside (a shout-out to the weather in our hometown in Northeast Ohio). Our job today is much cozier in comparison, but thinking back on the experience, there are several related takeaways:

- In sales, appearances can be deceiving. The easiest sales were sometimes from the worst looking prospects.

In investing, some of the best opportunities can be found in left-behind sectors or companies. We have found there are often a few overlooked prospects in the mix. The financials may be a mess or management may be below average, but they can still be great investments at the right price.

- As a salesperson, time is often better spent seeking out the easy “yes” versus trying to “sell” a difficult prospect.

Some investors get stuck trying to “force” an investment. They spend months tracking down every trivial detail. Behavioral research shows that more information can lead to worse decisions, even if it feels better. This mistake is compounded if it means a better investment was missed. Finding the “no-brainers” makes both sales and investing much easier.

- The best sales territories had houses close together, reducing wasted effort and maximizing the chances of easy sales.

While neighborhoods with big houses were more impressive, wasted time was spent trudging up and down the long driveways. Much better to maximize the chances of a successful sale (or investment) by hitting many houses in an efficient fashion. Like our “turning over rocks” mantra, maintaining a steady and rapid cadence of potential ideas is a crucial part of our investment process.

- The best salespeople were also ready to pounce on a potential sale quickly, especially when there was a clear win-win on both sides of the transaction.

After thousands of rejections, sometimes the rare “yes” in sales was almost unbelievable. Good investments can be just as rare, so it is important to jump at the chance when an opportunity presents. It also means maximizing each opportunity with a concentrated investment approach.

Our Fund capitalizes on many of these lessons. While we enjoyed the competitive part of the sales process, thankfully the amount of “selling” in our current career is kept to a minimum. We believe that over time our investment process and performance track record will naturally resonate with investors.

Contributors/Detractors

The top three contributors for 2021 were Total Energy Services (“Total Energy”), Italian Wine Brands (“IWB”) and Texhong Textile Group (“Texhong”). These are all repeat contributors from the interim update in June. Total Energy has grown into one of our largest positions as the potential for an upswing in the oil & gas market continues to increase. Oil prices are hitting highs last seen in 2014. Yet Total Energy’s market cap ended 2021 at sub-CAD300 million versus its peak around CAD700 million in 2014, lagging far behind the oil price recovery. One recent sell-side report in January 2022 described the oilfield service sector as “Entering the Torquey Part of the Cycle” and we remarked before that “a sustained upswing in the oil market should see explosive growth in cash flow for Total Energy.” While it is too early to make any explosive declarations, almost all key performance metrics at the company have started inflecting upward. If the upcycle strengthens, we believe there is a long way to go. Insiders seem to agree with ongoing purchases by management and directors even as the stock reaches 52-week highs.

Both IWB (a wine distributor) and Texhong (a yarn manufacturer) had very strong performance in the first half of the year. For IWB, integration of the transformational acquisition of Enoitalia is progressing well. We continue to think the deal offers material synergies that will surprise to the upside with time. Management announced another acquisition at year-end to gain a better foothold in the sizable U.S. market as they seek to become the number one Italian wine producer. Texhong is benefiting from the normalization of the apparel supply chain. Cotton prices have been on a steady increase and rising cotton prices should support higher margins at Texhong. Texhong is slowly transitioning from an upstream yarn manufacturer to a more integrated downstream business model, which should help reduce earnings volatility and raise the multiple over time.

In a strong performance year, Omni Bridgeway (“Omni”), our litigation finance company, was the only material detractor. One appealing part of the Omni investment is the uncorrelated nature of its earnings. The timeline of case wins is driven by the legal system rather than macro events. This “feature” went the other way in an otherwise strong year for our holdings. In September, the company lost an appeal for its largest remaining on-balance sheet investment in the Wivenhoe Dam class action, surprising the market. While disappointing, the Wivenhoe case has been a massive success with almost 8x return to Omni on

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the cash invested. The case is far from over with the company appealing the recent decision. We believe Omni is finally on the cusp of unlocking the tremendous earnings potential built up in its book of case investments and funds, and that the market will judge the stock far differently over the next 12-24 months.

Conclusion

We have largely avoided the high growth/high expectations corners of the market in favor of steady, above average businesses linked to the real economy. For years, that was the “wrong” answer as the speculative corners of the market raced ahead. The leaderboard can change in a hurry, however. The last six months of 2021, and the turmoil so far in the first few weeks of 2022, have provided ample evidence of how quickly things can shift in markets. We are excited about the potential in the Fund’s holdings over the coming years. Our objective remains to produce attractive risk-adjusted returns over a full market cycle. We appreciate the Fund’s 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 December 31, 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 12/31/21)

Holding	% of Net Assets
Omni Bridgeway Ltd	9.42
Total Energy Services Inc	9.33
Trecora Resources	7.48
Legacy Housing Corp	5.47
Italian Wine Brands SpA	5.17
Naked Wines PLC	4.39
AMERCO	3.68
Brickability Group PLC	3.35
Texhong Textile Group Ltd	3.13
Ocean Wilsons Holdings Ltd	2.99
TOTAL %	54.42

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](https://www.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.

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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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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