Q2 | 2021 AMG Beutel Goodman Core Plus Bond Fund[1]

COMMENTARY | ASSET CLASS | FIXED INCOME

Class N | ADBLX   Class I | ADLIX   Class Z | ADZIX

Average Annual Returns (%)[2] (as of 06/30/21)

	Q2	YTD	1 yr	3 yr	5 yr	Since Incpt.
ADBLX (Class N)	2.24	0.07	3.73	4.52	3.17	4.19
ADLIX (Class I)	2.21	0.19	3.89	4.75	3.41	4.44
ADZIX (Class Z)	2.22	0.22	3.97	4.86	—	3.68
Bloomberg Barclays U.S. Aggregate Bond Index	1.83	-1.60	-0.33	5.34	3.03	3.31[3]

ADBLX (Class N) Expense Ratio (Gross/Net)[4]: 0.71%/0.68%
ADLIX (Class I) Expense Ratio (Gross/Net)[4]: 0.51%/0.48%
ADZIX (Class Z) Expense Ratio (Gross/Net)[4]: 0.46%/0.43%

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 Beutel Goodman Core Plus Bond Fund** (Class N) returned 2.24% during the second quarter, outpacing the 1.83% return for the Bloomberg Barclays U.S. Aggregate Index. For the 12 months ending June 30, 2021, the Fund returned 3.73%, compared with a return of -0.33% for the Index.

Market Overview

With vaccination rollouts gathering steam in many parts of the world and economies gradually opening up, there is much to be hopeful for in the months ahead. The pandemic has taken a devastating toll, but more than a year into this tragedy, we appear to be well on the way to recovery. All stories need a subplot, though, and the second quarter certainly offered one up to bond markets in the form of surging inflation.

The annual inflation rate in the U.S. has, as expected, been rising steadily since March, attributable in large part to base effects. That is, due to the pandemic and resultant lockdowns in March and April 2020, prices fell significantly, providing a very low base from which to compare current pricing levels. However, despite a 2.6% increase in March and a 4.2% rise in April, yields remained relatively steady for the first two months of the period. It wasn't until May's print of 5.0%, which was released on June 10—a few days before the U.S. Federal Reserve's (the Fed's) June meeting—that concern set in.

Concern then appeared to morph into full-blown panic as markets digested a seeming discrepancy between the Fed's official statements at that meeting ("inflation is transitory") and the more hawkish dot plot projections. Rather than confirm the Fed's stated plans to maintain current low interest rates until 2024, the dot plot suggests some Fed members believe rate hikes will start in 2023. The reaction from bond markets was extreme, with yields falling significantly across all curves. This effect was exacerbated by international and institutional investors closing out short positions taken when yields rose in February and March.

While a possible rate hike in 2023 is still 18–24 months away, the bond market is concerned that central banks will suddenly change their outlooks and withdraw stimulus without warning. However, we do not believe that will be the case.

Concern that inflation is running hotter than expected may be warranted, but the Fed has been transparent about its dual goals of price stability and maximum sustainable employment. To that end, employment data has been somewhat disappointing to date. The U.S. did add 850,000 jobs in June—150,000 more than

[1] Effective March 24, 2021, the Fund's subadvisor changed to Beutel, Goodman & Company Ltd. Prior to March 24, 2021, the Fund was known as the AMG Managers DoubleLine Core Plus Bond Fund and had different principal Investment strategies and corresponding risks. Performance shown for periods prior to March 24, 2021, reflects the performance and investment strategies of the Fund's previous subadvisor, DoubleLine Capital LP. The Fund's past performance would have been different if the Fund were managed by the current subadvisor and strategy, and the Fund's prior performance record might be less pertinent for Investors considering whether to purchase shares of the Fund.

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

[3] Since the inception of the Fund's Class N and Class I shares on July 18, 2011.

[4] The Fund's Investment Manager has contractually agreed, through March 1, 2021, 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.

consensus expectations—but this follows lower-than-expected numbers for April and May. In addition, the labor force participation rate and hourly earnings are still short of expectations.

There are a number of reasons for the lackluster jobs data: supply bottlenecks, school closures in certain states, a mismatch between the job skills required and those of applicants, and people receiving more income through enhanced unemployment benefits than they would at low-paying jobs. However, it was still a major blow to the reflation narrative.

What all this means is that we are still only halfway through this story. Markets will be watching the data closely in the months ahead to confirm if we are truly on the path to happily ever after.

Central Bank Watch

The Fed appears to have caught the market off guard during the quarter. As noted above, despite the annual inflation rate accelerating to 5% in May, the Fed continued to tell markets that inflation is transitory. In addition, it appears to be maintaining its official stance that it will not begin to raise interest rates until 2024. However, the latest dot plot suggests that more members now believe a rate hike will come a year earlier than previously expected. The mismatch between the Fed's words and projections has ultimately led to concern that the Fed is getting concerned about inflation and there is disagreement on the path forward.

Performance and Positioning Review

During the period, the Bloomberg Barclays U.S. Aggregate Bond Index gained 1.83% on a total return basis. The U.S. Treasury, government-related and securitized sectors all underperformed the Index during the quarter, returning 1.75%, 1.72%, and 0.44%, respectively, while the corporate sector outperformed the Index, returning 3.55%. The Bloomberg Barclays U.S. Corporate High Yield Index returned 2.74% for the second quarter. The CCC, BB, and B credit quality sectors returned 3.49%, 2.86%, and 2.16%, respectively. Against this backdrop, the Fund outperformed the benchmark. The Fund's sector allocation added value as the portfolio was overweight corporate bonds and underweight securitized products and U.S. Treasury bonds. Corporate security selection in energy, financials, high yield and securitized product names also contributed to relative outperformance. This was partially offset by duration, as the portfolio was generally short during a falling yield environment. Curve positioning also detracted due to concentration in three- to five-year bonds as the yield curve flattened.

We expect yields to rise, though in a flattening manner. As such, we believe longer-dated bonds are currently overvalued, specifically 10-year bonds, and have moved to an underweight position, which has consequently shortened the duration of the portfolio. Although we remain overweight credit in anticipation of a continued strong economic recovery, we have also moved to a shorter-duration positioning in this segment of the portfolio. As the expectation builds for rate hikes, we expect to continue to reduce duration. As rate hikes will likely only be implemented if economic growth is strong, we will initially want to be fully exposed to risk assets, although we recognize that as rates rise, financial conditions tighten. As always, we will monitor the situation and our credit allocation will be reflective of our macro views.

While we believe there are still opportunities for some credits to continue to tighten, we have begun shifting to a more defensive positioning. At this point in the cycle, we are opportunistically de-risking some aspects of our portfolio by upping credit quality or switching to lower beta names without sacrificing much spread. The new issue market was strong in the quarter, with companies across the rating spectrum trying to take advantage of the low yields and tight credit spreads. While we continue to search for attractive investments, we are also actively avoiding those which we feel are unattractive, as they do not compensate bondholders for the risks they are assuming. Sector-wise, we still see some room for tightening in energy, although we are more focused on midstream companies than on pure-play oil and gas companies. We also continue to see value in financials, as many banks and insurance companies have come through the pandemic on a strong footing. Focusing on the different parts of the capital structure as the AT1s can make for attractive opportunities. We also favor cyclical names that we believe are well positioned to recover from the pandemic such as aircraft leasing companies. We are watching the high-yield sector for rising stars. Ratings agencies downgraded a significant number of companies during the pandemic. While this is technically what they are supposed to do, the downgrading of many investment-grade companies to high yield is starting to look somewhat premature given that some of them have now recovered strongly from the pandemic. We are thus selectively adding names to the portfolio that we believe look set to return to investment-grade, whether this year or next.

Outlook

We believe the sharp rise in inflation we've seen in the last few months has largely been a result of base effects. Temporary supply and demand mismatches have also contributed to upward pressure on inflation. However, while these and the effects of monetary and fiscal stimulus are likely to continue to distort the inflation rate in the months to come, we currently believe it will have only a minor impact on long-term inflation.

Despite the higher-than-expected inflation prints for May and June in the U.S., we believe there are too many structural issues to warrant long-term inflation of more than 2.5%. One of these issues is demographics. Most developed countries have aging populations, and according to the U.S. Bureau of Labor Statistics, the average retired household spends 25% less than the average working

household. Technological advances over the past five decades also make it highly unlikely that we will see a return of 1970s-style hyperinflation, as the efficiencies and increased productivity that technology provides companies typically result in decreasing prices. In addition, governments around the world have added significantly to debt loads to combat the pandemic's economic impact. It would be difficult for the economy to sustain significantly higher inflation and the higher interest rates that would have to come to combat higher inflation.

We also maintain our view that as the vaccination programs roll out, pandemic fears fade, and reopening occurs more broadly, the economy will continue to grow above potential. The first reaction of central banks to this will likely be (and in the case of Canada and China has been) to tone down some of the liquidity that has flooded the system. Once tapering of asset purchases starts and central banks are more certain that economic growth is consistent and inflation persistent, we will likely see a rise in interest rates. The market currently expects the Fed to start hiking in Q2/2023, although we believe the timing and magnitude of any rate hike will be very well telegraphed to avoid a repeat of the 2013 taper tantrum.

Top Ten Holdings (%)[5] (as of 06/30/21)

Holding	Coupon (%)	Maturity	% of Net Assets
United States Treasury Note/Bond Fixed	0.25	Nov 2023	6.76
United States Treasury Note/Bond Fixed	1.88	Feb 2051	2.59
Freddie Mac Pool SD8107 Fixed	2.50	Nov 2050	2.52
United States Treasury Note/Bond Fixed	1.25	May 2050	1.88
Freddie Mac REMICS Fixed	2.50	Nov 2040	1.56
Fannie Mae Pool BL4421 Fixed	2.14	Oct 2029	1.36
CCO Holdings LLC Fixed 144A	5.00	Feb 2028	1.30
Fannie Mae REMICS Fixed	3.50	Mar 2042	1.26
Verizon Communications Inc Fixed	4.40	Nov 2034	1.17
Bank of America Corp Floating	-	Oct 2025	1.17
TOTAL %	21.57		

This is a long way down the road, though, and a lot of things can happen in the interim. While we anticipate strong growth as the economy reopens, there will likely be blips, given the development and spread of variants, the uneven dispersal of vaccines across emerging nations, and the potential for more lockdowns. These blips are most likely to occur as delays in supply chains, as ramp-ups go less smoothly than anticipated, and in employment—whether due to localized lockdowns or a slow return to work in some sectors of the economy.

Strong economic growth bodes well for risk assets as the increase in consumer spending starts to reflect in quarterly earnings. However, while the backdrop remains strong, it also means that we are likely headed for a difficult credit environment in terms of spreads. Credit spreads tightened significantly in the second quarter, essentially erasing last year's credit-spread widening due to fears of a pandemic and the decline in commodity prices. As a result, we believe we are entering a "credit-picker's market," where caution is warranted as the risk of bubbles increases.

Currently, we see two major risks emerging. One is on the mergers and acquisitions (M&A) front. We have already seen a tremendous amount of M&A activity this year. Whether this is good or bad for a particular credit investor depends on which side of the M&A deal the company is on and how the acquisition is structured. Investors in a lower-rated entity that is being acquired by a stronger-rated entity may actually find themselves in a credit-positive position. On the other hand, those invested in an acquirer that is increasing debt and levering up to make the acquisition could see a negative impact.

The other risk is the significant amount of debt issuance that started during the pandemic. Arguably, this is exactly what companies should have done heading into a period of uncertainty. They issued debt, they provided liquidity, and ensured they had cash on their balance sheets to weather the storm. Once through that storm, though, the question is how those companies will choose to use that cash. Will they show discipline and start to de-lever, or will they use it to initiate share buybacks and pay dividends, which may be good for equity shareholders but are not necessarily positive for bondholders?

The views expressed represent the opinions of Beutel Goodman as of June 30, 2021, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

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.

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

[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.

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.

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 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.

To the extent that the Fund invests in asset-backed or mortgage-backed securities, its exposure to prepayment and extension risks may be greater than investments in other fixed income securities.

The federal funds rate is the interest rate at which depository institutions (banks and credit unions) lend reserve balances to other depository institutions overnight, on an uncollateralized basis. High-yield bonds (also known as "junk bonds") may be subject to greater levels of interest rate, credit, and liquidity risk than investments in higher rated securities. These securities are considered predominantly speculative with respect to the issuer's continuing ability to make principal and interest payments. The issuers of the Fund's holdings may be involved in bankruptcy proceedings, reorganizations, or financial restructurings, and are not as strong financially as higher-rated issuers.

Bank loans are subject to the credit risk of nonpayment of principal or interest.

Factors unique to the municipal bond market may negatively affect the value in municipal bonds.

Obligations of certain government agencies are not backed by the full faith and credit of the U.S. government. If one of these agencies defaulted on a loan, there is no guarantee that the U.S. government would provide financial support. Additionally, debt securities of the U.S. government may be affected by changing interest rates and subject to prepayment risk.

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.

The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS (agency and non-agency).

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 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.

Active and frequent trading of a fund may result in higher transaction costs and increased tax liability.

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.

During periods of rising interest rates, a debtor may pay back a bond or other fixed income security slower than expected or required, and the value of such security may fall.

There is no guarantee that the Fund's hedging strategies will be successful. For example, changes in the value of a hedging transaction may not completely offset changes in the value of the assets and liabilities being hedged. Hedging transactions involve costs and may result in losses.

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.

The Fund may have difficulty reinvesting payments from debtors and may receive lower rates than from its original investments. Applying the Fund's ESG investment criteria may result in the selection or exclusion of securities of certain issuers for reasons other than performance, and the Fund may underperform funds that do not utilize an ESG investment strategy. The application of this strategy may affect the Fund's exposure to certain companies, sectors, regions, countries or types of investments, which could negatively impact the Fund's performance depending on whether such investments are in or out of favor. Applying ESG criteria to investment decisions is qualitative and subjective by nature, and there is no guarantee that the criteria utilized by the Subadviser or any judgment exercised by the Subadviser will reflect the beliefs or values of any particular investor.

In managing the Fund, the Fund's Subadviser may rely heavily on one or more quantitative models ("Model") and information and data supplied by third parties ("Data"). When a Model or Data used in managing the Fund contains an error, or is incorrect or incomplete, any investment decision made in reliance on the Model or Data may not produce the desired results and the Fund may realize

losses. In addition, any hedging based on a faulty Model or Data may prove to be unsuccessful.

Many bonds have call provisions which allow the debtors to pay them back before maturity. This is especially true with mortgage securities, which can be paid back anytime. Typically debtors prepay their debt when it is to their advantage (when interest rates drop making a new loan at current rates more attractive), and thus likely to the disadvantage of bondholders, who may have to reinvest prepayment proceeds in securities with lower yields. Prepayment risk will vary depending on the provisions of the security and current interest rates relative to the interest rate of the debt.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

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Unlike the Fund, indices are unmanaged, are not available for investment, and do not incur expenses.

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