Q3 | 2021

AMG GW&K ESG Bond Fund[1]

COMMENTARY

ASSET CLASS | ESG FIXED INCOME

Class N | MGFIX   Class I | MGBIX

GW&K INVESTMENT MANAGEMENT

Average Annual Returns (%)[2] (as of 09/30/21)

	Q3	YTD	1 yr	3 yr	5 yr	10 yr	Since Incpt.
MGFIX (Class N)	0.00	-1.21	2.65	5.25	3.86	4.43	7.77[3]
MGBIX (Class I)	0.01	-1.06	2.82	5.45	4.02	—	3.62[4]
Bloomberg U.S. Aggregate Bond Index	0.05	-1.55	-0.90	5.36	2.94	3.01	7.01[3]

MGFIX (Class N) Expense Ratio (Gross/Net)[5]: 0.69%/0.68%
MGBIX (Class I) Expense Ratio (Gross/Net)[5]: 0.49%/0.48%

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 GW&K ESG Bond Fund** (Class N) returned 0.00% in the third quarter of 2021, compared with the 0.05% return of the Bloomberg U.S. Aggregate Bond Index. For the 12 months ended September 30, 2021, the Fund returned 2.65%, compared with the -0.90% return for the benchmark. Please note that this Fund has multiple share classes.

Market

Fixed income markets were essentially unchanged in the third quarter despite a steady succession of headlines related to COVID-19, geopolitics, and price increases. Bond investors' largely sanguine response to these challenges suggests they have been able to look beyond near-term headwinds toward the next stage of the recovery. The Delta variant drove a massive surge in cases across much of the U.S., even as new prevention and treatment options continued to emerge, and data suggest cases have crested. Chinese authorities enacted assertive regulatory changes and pursued efforts to reduce systemic leverage, while nevertheless framing both as necessary to achieve long-term stability and prosperity. Supply-chain constraints, energy shortages, and limited labor availability threatened to weigh on growth around the world, but there have been few indications that these market failures reflect any weakness in aggregate demand. On balance, these various obstacles seem to have been relegated to the category of one-time items, and the bond market has demonstrated little concern that they represent a meaningful threat to the current trading regime.

The Treasury sector narrowly posted a positive return, but still sits decisively in negative territory for the year. The yield curve experienced a slight flattening in response to an incrementally hawkish stance from the FOMC, which saw an uptick in its members' expectations for where the benchmark rate will be in 2022. This shift caused rates at the front end to push to new post-pandemic highs while keeping long rates in check on an increasingly murky growth outlook. The most pressing matter before the Fed is the timing and pace of the eventual taper, which is now expected to begin as soon as November and conclude in June of 2022 following a reset to a monthly cadence of declining purchases. This slightly accelerated timeframe has pulled forward market expectations of rate hikes, which are expected to commence in late 2022. Mortgage-backed securities slightly outperformed Treasuries, benefiting from superior carry, reduced taper uncertainty, and slower-than-anticipated prepayment speeds.

Corporate bond spreads continued to trade in a tight range and closed the period just a few basis points above historic lows. While credit markets generally

[1] As of March 19, 2021, the Fund's subadvisor was changed to GW&K Investment Management, LLC. Prior to March 19, 2021, the Fund was known as the AMG Managers Loomis Sayles Bond Fund, and had different principal investment strategies and corresponding risks. Performance shown for periods prior to March 19, 2021, reflects the performance and investment strategies of the Fund's previous subadvisor, Loomis, Sayles & Company, L.P. 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 shares on June 1, 1984.
[4] Since the inception of the Fund's Class I shares on April 1, 2013.
[5] The Fund's Investment Manager has contractually agreed, through May 1, 2023, 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.

tracked the volatility that drove equity trading, the magnitude of the moves was fairly muted by comparison. Robust cash generation and investors' fervent demand for yield have kept a ceiling on spreads over the last several quarters. Borrowers have used this favorable operating environment to improve their financial strength. Leverage across the quality spectrum has declined to pre-pandemic levels and companies' ability to service their debt has surpassed prior levels following a massive refinancing wave. New issuance maintained its torrid post-pandemic pace in both investment grade and high yield, with the largest share of proceeds still earmarked for replacing high-coupon debt even as the percentage used to fund M&A continued to rise. Among the best performing segments were the recovery-linked sectors, such as airlines, lodging, and energy, while the more traditionally defensive sectors like communications and technology were relative underperformers. Measures of financial distress remain benign, with the trailing default rate ticking lower yet again and declining to pre-COVID levels.

Performance

The Fund's overweight to spread product and out-of-benchmark allocation to high-yield corporates contributed positively to relative performance. An overweight to higher-coupon agency fixed-rate MBS and allocation to the preferred sector also positively contributed. Selection within corporates was also a benefit. The Fund's overweight to intermediate rates was the main detractor as the belly underperformed short and long rates.

Outlook

The increasingly hawkish tone of commentary from central banks around the world has raised the temperature of rhetoric on both sides of the transitory versus structural inflation debate. In the former camp are those who caution that responding too hastily to one-time, supply side-related shortages would result in a policy error; those in the latter camp fret that authorities are already behind the curve and that tapering should have begun months ago. The slope of the yield curve offers little clarity and points to a stalemate for now, sitting at or very near its multi-decade average (depending on which tenors you consider). While we recognize merits on both sides of the argument, we continue to see more risk to the upside in rates than the downside and thus remain broadly shorter than our benchmarks. We also see a more appealing risk profile in intermediate maturities in comparison to the long end, which would experience the greatest volatility in the event of a sharp move higher in rates.

Our outlook for corporate credit remains constructive and we believe the space offers the most compelling value in the fixed income market. Insofar as Treasury yields sit near historic lows, corporates offer an attractive yield advantage, and in the event that rates begin to rise they offer a potential buffer. Additionally, as the recovery continues to unfold, we see opportunities in credit-improvement stories that could benefit from spread compression and that would generate further excess returns. The higher-rated segments of the high yield market in particular are rich in these opportunities, given the number of issuers downgraded from investment grade last year that are poised to regain their former IG status. We also anticipate further outperformance in select segments of the consumer-oriented sectors, while remaining wary of potential challenges posed by supply chain stresses. We are still neutral on the mortgage space in advance of the Fed's tapering, but the recent uptick in mortgage rates offers a first step toward improving our confidence in the prepayment outlook. Our preference for higher-coupon, seasoned pools has already begun paying off as duration for the benchmark has lengthened into the rates selloff. Given that we expect this trend to persist, we maintain this preference within the MBS space.

The views expressed represent the opinions of GW&K Investment Management, LLC, as of September 30, 2021, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

Top Ten Holdings (%)[6] (as of 09/30/21)

Holding	Coupon (%)	Maturity	% of Net Assets
Freddie Mac Pool SD8142 Fixed	3.00	Apr 2051	2.86
Fannie Mae Pool MA3745 Fixed	2.00	Apr 2051	2.54
United States Treasury Note/Bond Fixed	0.25	Mar 2024	2.43
Freddie Mac Pool RC1890 Fixed	2.00	Mar 2036	2.37
Fannie Mae Pool MA3745 Fixed	3.50	Aug 2049	2.31
Fannie Mae Pool FM3375 Fixed	3.50	Feb 2035	2.07
United States Treasury Note/Bond Fixed	1.88	Feb 2051	2.04
Freddie Mac Pool SD8045 Fixed	3.50	Feb 2050	1.97
Freddie Mac Pool ZT1817 Fixed	4.50	Dec 2048	1.89
United States Treasury Note/Bond Fixed	3.50	Feb 2039	1.87
TOTAL %			22.35

[6] 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.

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.

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 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") 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.

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.

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 currency risk resulting from fluctuations in exchange rates that may affect the total loss or gain on a non-U.S. dollar investment when converted back to U.S. dollars.

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.

Because exchange-traded funds (ETFs) incur their own costs, investing in them could result in a higher cost to the investor.

Additionally, the fund will be indirectly exposed to all the risks of securities held by the ETFs.

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

The Bloomberg 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, 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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