

# Q2 | 2021 AMG GW&K Emerging Wealth Equity Fund

COMMENTARY

ASSET CLASS | EMERGING MARKETS

Class N | TYWVX

Class I | TYWSX

Class Z | TYWIX



## Average Annual Returns (%)<sup>1</sup> (as of 06/30/21)

	Q2	YTD	1 yr	3 yr	5 yr	Since Incpt. <sup>2</sup>
TYWVX (Class N)	-1.72	0.07	32.14	10.10	14.03	9.55
TYWSX (Class I)	-1.58	0.19	32.63	10.43	14.37	9.84
TYWIX (Class Z)	-1.58	0.26	32.73	10.56	14.48	9.96
MSCI Emerging Markets Index	5.05	7.45	40.90	11.27	13.03	8.31

TYWVX (Class N) Expense Ratio (Gross/Net): 1.26%/1.26%

TYWSX (Class I) Expense Ratio (Gross/Net): 0.97%/0.97%

TYWIX (Class Z) Expense Ratio (Gross/Net): 0.86%/0.86%

*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](http://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 Emerging Wealth Equity Fund (Class N) returned -1.72% in the second quarter of 2021, compared to the 5.05% return for its benchmark, the MSCI Emerging Markets Index. For the 12-month period ending June 30, 2021, the Fund returned 32.14%, compared with the 40.90% return for its benchmark. Please note that this Fund has multiple share classes.

## Market Overview

Emerging market (EM) equities advanced for the fifth consecutive quarter. Performance fell short of developed markets, however, which have benefited from ongoing stimulus programs and higher immunization levels. Commodity

prices remained well supported, as Brent Crude Oil advanced on favorable demand dynamics and copper hit a record high. A basket of MSCI EM currencies returned 1.2% against the U.S. dollar, led by a 9.2% gain in the Brazilian real. The MSCI EM Index was up 5.1% versus 7.7% for the MSCI World Index.

The commodity rich regions—Latin America and EMEA—were top performers this quarter. Eastern European markets were also standout performers in EMEA—the Continent's Q1 earnings season was among the best on record. Asia underperformed the broader Index. Tighter credit conditions and ongoing regulatory scrutiny targeting internet-related companies curbed gains in China. In addition, some Southeast Asian countries—Thailand, for example—struggled to contain recent coronavirus outbreaks. However, India's case count has fallen dramatically since the mid-May peak, and the market ended the quarter on a positive note. Among sectors, energy finished in the lead, as oil prices climbed higher. Shipping and building materials led industrials, and health care outperformed with particular strength in equipment and service companies. In communication services, Chinese internet-related companies declined on regulatory uncertainty. The real estate sector lagged significantly on deleveraging concerns in China.

## Strategy

The Fund underperformed primarily due to company selection in China's consumer discretionary sector. For example, no exposure to the country's auto industry had a negative impact on relative performance. In addition, the Fund was caught in the crosshairs of China's regulatory crackdown on select industries, including private after-school tutoring and online entertainment. Tencent Music Entertainment Group and education provider TAL were down on regulatory uncertainty, with the former under additional pressure from the Archegos Capital liquidation. We believe any proposed regulations will be pragmatic solutions aimed at safeguarding consumers without detrimentally affecting higher quality businesses.

Nevertheless, we are closely monitoring the situation. Finally, travel stocks such as Trip.com and Sands China Ltd. declined on weak first-quarter earnings caused by strict travel restrictions during the Chinese New Year. However, the local travel market has since recovered. Trip.com experienced record domestic volumes during May holidays. Encouragingly, several of the portfolio's holdings in China did perform in line with strong business fundamentals. Yum China Holdings reported a continued recovery in sales across its quick-service restaurant formats. Wuxi Biologics Inc., a contract development and

<sup>1</sup> Returns for periods less than one year are not annualized.

<sup>2</sup> Since the inception of the Fund on March 19, 2015.

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manufacturing health-care organization, rose sharply after management significantly increased revenue guidance during a recent investor day. Grupo Financiero Banorte SAB topped the portfolio's strong performance in Mexico.

### Outlook

As the narrative shifts to peak growth and peak stimulus, we can already observe an uneven post-pandemic global recovery. Having effectively contained the virus and the economic consequences, China has long since moved on from accommodative policy initiatives, while the developed world is just beginning to contemplate a tighter fiscal and monetary stance. This is evident in the country's relative underperformance this year. As credit conditions tightened, investors took profits in many of China's growth-oriented consumer companies and shifted to heavily sold-off cyclical plays in areas like EM energy, materials, and industrials. As policy normalizes globally, consumption will once again be the key driver of global growth and the rotation to value cyclicals should run its course. We are confident that the portfolio will perform well in this next, more sustainable period of economic expansion.

### Portfolio Additions

- Pinduoduo is a leading ecommerce platform in China that specializes in agricultural B2B and grocery retail.
- Baidu, China's largest internet search engine, also has investments in AI Cloud capabilities and autonomous driving.

### Portfolio Sells

- Meinian Onehealth Healthcare Holdings Co. Ltd. was sold due to shifts in the business model.
- OneConnect was sold, as the company has not successfully diversified its customer base.
- LG Household and Healthcare was sold due to challenging comps and its growing reliance on a single personal care product.

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

### Top Ten Holdings (%)<sup>3</sup> (as of 06/30/21)

Holding	% of Net Assets
Sands China Ltd	6.54
Trip.com Group Ltd ADR	5.21
Infineon Technologies AG	5.07
QUALCOMM Inc	4.90
Yum China Holdings Inc	4.83
HDFC Bank Ltd ADR	4.21
Tencent Music Entertainment Group ADR, Class A	3.51
Alibaba Group Holding Ltd ADR	3.23
AIA Group Ltd	3.20
Kotak Mahindra Bank Ltd	3.05
TOTAL %	43.75

### 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 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.

<sup>3</sup> 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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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.

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.

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 security when converted back to U.S. dollars.

The Fund invests in growth stocks, which may be more sensitive to market movements because their prices tend to reflect future investor expectations rather than just current profits.

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.

A short-term redemption fee of 2% will be charged on redemptions of Fund shares within 60 days of purchase. Effective March 1, 2019, the Fund will eliminate this redemption fee.

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.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of 24 emerging market country indices.

The MSCI All Country World Index (ACWI) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. Please go to [msci.com](http://msci.com) for the most current list of countries represented by the index.

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The MSCI Emerging Markets Growth Index captures large and mid cap securities exhibiting overall growth style characteristics across 27 Emerging Markets countries. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend, and long-term historical sales per share growth trend.

The MSCI Emerging Markets Value Index captures large and mid cap securities exhibiting overall value style characteristics across 27 Emerging Markets countries. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price, and dividend yield.

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

Forward price/earnings (or P/E) ratio is a comparison of the company's closing stock price and its estimated 12-month earnings per share.

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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