AMG GW&K Municipal Bond Fund

COMMENTARY

ASSET CLASS | FIXED INCOME

Class N | GWMTX Class I | GWMIX

GW&K INVESTMENT MANAGEMENT

Average Annual Returns (%)[1] (as of 06/30/20)

	Q2	YTD	1 yr	3 yr	5 yr	10 yr	Since Incpt.[2]
GWMTX (Class N)	2.58	1.93	3.75	3.45	3.31	3.85	4.26
GWMIX (Class I)	2.73	2.16	4.06	3.79	3.68	4.28	4.71
Bloomberg Barclays 10-Year Municipal Bond Index	2.88	2.47	4.74	4.37	4.16	4.47	4.92

GWMTX (Class N) Expense Ratio (Gross/Net)[3]: 0.78%/0.71%
GWMIX (Class I) Expense Ratio (Gross/Net)[3]: 0.46%/0.39%

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 Municipal Bond Fund** (Class N) returned 2.58% for the second quarter of 2020, compared with 2.88% for its benchmark, the Bloomberg Barclays 10-Year Municipal Bond Index. For the 12 months ended June 30, 2020, the Fund returned 3.75% versus 4.74% for the Index. Please note that this Fund has multiple share classes.

Market

The municipal bond market posted impressive returns in the second quarter, completing a remarkable turnaround from the most tumultuous selloff in its history. Tax-exempt yields fell sharply across the curve, dropping back near all-time lows and narrowing a gap against Treasuries that had recently ballooned to all-time highs. The path toward normalcy passed many markers along the way. Short-term financing costs, which had spiked in March, dropped to record lows by June. Mutual funds not only stemmed the tide of massive net redemptions, but also began seeing a surge of inflows. The new issue market, which was effectively closed in March and most of April, eventually kicked into high gear, providing much needed price discovery and reflecting a growing confidence that the worst may have passed. The healing was broad based but not quite universal. Credit quality took on new importance as investors became more skeptical of certain issuers and sectors perceived as vulnerable to the pandemic fallout. And states are beginning to fear that additional federal aid may become a casualty of election-year politics, an outcome that could spell trouble in some corners of the municipal bond space.

Meanwhile, in the broader markets, risk assets soared as governments around the world provided unprecedented stimulus in the form of grants, loans and backstops. The Federal Reserve declared "no limit" to the amount of support it could provide, and backed that up with a dizzying array of programs designed to ensure an ample flow of credit to households, corporations, and governments. A large-scale easing of lockdown restrictions, as well as progress made on virus treatments and vaccine trials, fed optimism that a swift rebound was possible, a notion that was reinforced by a blowout jobs report for May. Equity markets gained back much of their losses from the first quarter (the tech-heavy NASDAQ made new highs) and oil prices recovered from a historic plunge below zero to top $40 per barrel for the first time since the early days of March. While the need for safe havens diminished, Treasuries mostly firmed, driven by dovish guidance from the Fed, along with hints that yield curve controls were coming later this year. As the quarter came to an end, sentiment turned more cautious as coronavirus outbreaks in several states threatened to disrupt the economic momentum of the prior weeks.

While not all the way back to normal, the municipal bond market has come a long way since the breathtaking selloff in March. Once again, the lobbying power of the states proved critical, as much of the recovery was due to the extraordinary intervention by the federal government. And with another $3 trillion stimulus bill before the Senate (having already passed the House), there could be more relief on the way. In addition, the market stands to benefit from strong summer technicals, as supply is scheduled to lag demand thanks to a pipeline of seasonally heavy coupon and maturity redemptions, as well as a potential

[1] Returns for periods less than one year are not annualized.
[2] Since the Fund's inception on June 30, 2009.

[3] 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.

rebalancing toward bonds in response to the powerful run-up in stock prices. Also keep in mind that states entered this crisis in relatively good condition, with reserve balances at record highs on a cumulative basis. Even so, we advise caution moving forward. The fundamental picture for many sectors remains uncertain and hardly justifies any reach for yield, signs of which have already begun to resurface. Incremental returns are not yet high enough to justify the risk of dipping down in quality or reaching further out the curve. At this point in the cycle, we still see the best "value" as accepting marginally lower yields to responsibly insulate portfolios from unwelcome outcomes.

Performance

The Fund underperformed the Bloomberg Barclays 10-Year Municipal Bond Index for the quarter. Overall security selection aided relative performance. A shorter duration and lower portfolio carry were negatives.

Strategy

As the market recovered throughout the quarter, the Fund maintained its defensive posture with a tilt to borrowers that are most insulated from the fallout of the pandemic. Our defensive positioning was also evident in duration, which we kept short to reflect still-record-low yields and a relatively flat curve. A barbelled allocation to the very front end should provide the flexibility we need to take advantage of future volatility. We expect more disruptions to surface in the months ahead, particularly given the uncertainty of the virus outlook and the unpredictable swings in the election cycle, providing attractive entry points in the second half of the year.

The views expressed represent the opinions of GW&K Investment Management as of June 30, 2020, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

Ten Holdings (%)[4] (as of 06/30/20)

Holding	Coupon (%)	Maturity	% of Net Assets
State of Texas Fixed	4.00	Aug 2020	4.48
State of Maryland Fixed	5.00	Aug 2025	2.55
New York State Dormitory Authority Fixed	5.00	Mar 2021	2.31
Wisconsin Department of Transportation Fixed	5.00	Jul 2029	2.24
State of North Carolina Fixed	5.00	May 2028	1.68
Iowa Finance Authority Fixed	5.00	Aug 2030	1.55
Metropolitan Transportation Authority Fixed	5.00	Nov 2027	1.40
State of Maryland Department of Transportation Fixed	5.00	Sep 2029	1.35
State of Maryland Department of Transportation Fixed	5.00	Oct 2028	1.35
University of Missouri Fixed	5.00	Nov 2030	1.19
TOTAL %			20.19

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.

A basis point refers to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01% (0.0001), and is used to denote the percentage change in a financial instrument.

Issuers of bonds may not be able to meet interest or principal payments when the bonds come due.

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.

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.

[4] 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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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.

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

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.

Investment income may be subject to certain state and local taxes and, depending on your tax status, the federal alternative minimum tax. Capital gains are not exempt from federal income tax.

The Bloomberg Barclays 10-Year Municipal Bond Index is the 10-Year (8–12) component of the Municipal Bond index. It is a rules-based, market-value-weighted index engineered for the tax-exempt bond market. The Index tracks general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds rated Baa3/BBB- or higher by at least two of the ratings agencies: Moody's, S&P®, Fitch.

Effective August 24, 2016, the Barclays indices were renamed Bloomberg Barclays indices.

Source: Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank PLC (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.

Unlike the Fund, the Index is unmanaged, is not available for investment and does 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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