Q1 | 2019

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 03/31/19)

	QTD	YTD	1 yr	3 yr	5 yr	Since Incpt.[2]
GWMTX (Class N)	3.22	3.22	5.79	1.86	3.03	4.20
GWMIX (Class I)	3.27	3.27	6.09	2.20	3.42	4.67
Bloomberg Barclays 10-Year Municipal Bond Index	3.15	3.15	6.32	2.76	3.88	4.85

GWMTX (Class N) Expense Ratio (Gross/Net)[3]: 0.78%/0.71%
GWMIX (Class I) Expense Ratio (Gross/Net)[3]: 0.45%/0.38%

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 3.22% for the first quarter of 2019, compared with 3.15% for its benchmark, the Bloomberg Barclays 10-Year Municipal Bond Index. For the 12 months ended March 31, 2019, the Fund returned 5.79% versus 6.32% for the Index. Please note that this Fund has multiple share classes.

Market

Municipal bonds posted their best quarterly return in five years, driven by a drop in global interest rates and a surge in demand for tax-exempt income. A striking about-face in monetary policy helped risk sentiment recover from an ugly fourth quarter. Burned by hawkish messaging from December that upended the markets, the U.S. Federal Reserve (the Fed) vowed to be "patient" with further rate hikes and to slow the pace of balance sheet normalization. Stocks rejoiced, racing to double-digit returns. Bond yields stayed in a narrow range, held in check by muted inflation and lingering concerns over global growth. By the time the Fed actually followed through on their promises at the March Federal Open Market Committee (FOMC) meeting, economic uncertainty had deepened overseas. Weak manufacturing data out of China and Europe put downward pressure on global interest rates and U.S. bonds rallied in sympathy. The yield on the 10-year U.S. Treasury finally broke out of its trading channel and fell over 30 basis points in March, its largest monthly drop in three years. By the end of the quarter, the futures market was pricing in a 70% chance of a rate cut in 2019, a far cry from the beginning of the year, when the odds were little more than one in ten.

Municipal bonds did not just ride the momentum in U.S. Treasuries, they outperformed across the curve. Demand for bonds proved voracious as money poured into the space. Retail investors led the way, spurred on by the performance rebound from the fourth quarter and the heightened value of the tax exemption in a new world of fewer available deductions. The shift by the Fed supplied the final incentive. Retail investors tend to (falsely) equate hikes in the federal funds rate with rising rates throughout the curve. When policymakers hit the pause button, all lights were flashing green. Mutual fund inflows, a reliable indicator of retail sentiment, surged to $22 billion, the fastest start to a year on record. Even the month of March could not put a dent in the rally. In most years, March brings seasonal weakness, as elevated supply typically coincides with selling pressure from investors needing to pay tax bills. This year, however, supply came in below its five-year average, still held back from the recent elimination of advanced refunding transactions. And instead of selling, investors stampeded into the market looking to accumulate one of the few remaining high-quality tax havens.

Looking forward, we do not expect a major shift in the current dynamics driving the market. New issue volume should continue at its steady clip and remain easily digestible. The performance momentum of the past two quarters seems likely to keep the bid side feeling confident in the near term. And while relative value ratios have become historically rich, it would not be surprising to see them tread water or perhaps get even tighter, given a technical backdrop that feels as if it's only getting stronger. Much will depend on the direction of broader rates, of course, but a long record of muted volatility and low correlation should sustain investor interest even if rates begin to rise. At the same time, municipals still offer a valuable hedge against a potential slowdown in the economy and subsequent selloff in risk assets. In such a scenario, duration becomes a portfolio's foremost protector. Finally, the tax advantage of municipal bonds has become increasingly valuable, a reality that should only get magnified as April 15 approaches.

Performance

The Fund outperformed the Bloomberg Barclays 10-Year Municipal Index for the quarter. A longer duration in a declining rate environment and the favorable timing of our yield curve trade benefitted performance. An underweight to short-call bonds was also a positive. Our higher quality bias was a modest negative.

[1] Returns for periods less than one year are not annualized.
[2] Since the Fund's inception on June 30, 2009.
[3] The Fund's Investment Manager has contractually agreed, through at least May 1, 2019, 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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Strategy

The unique shape of the yield curve provided a compelling opportunity to reposition the Fund. At the start of the year, the strong technical environment impacted the front end of the curve much more than the long end. By the end of January, relative value ratios on five-year maturities had moved into historically rich territory. The short end of the curve also flattened so much that only ten basis points separated yields from one to five years, essentially removing any benefits of roll for those maturities. Meanwhile, the 10–15 year area of the curve actually steepened, keeping municipal/Treasury ratios closer to fair value. We responded to this anomaly by aggressively selling five-year bonds and purchasing securities in the 10–15 year area, which offered considerably more value in terms of roll, yield, and spread (our expected return improved by over 125 basis points). The move paid immediate dividends, as those longer maturities outperformed their shorter counterparts by a wide margin heading into quarter end.

The views expressed represent the opinions of GW&K Investment Management as of March 31, 2019, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

Top Ten Holdings (%)[4] (as of 03/31/19)

Holding	Coupon (%)	Maturity	% of Net Assets
State of Maryland Fixed	5.00	Aug 2025	2.82
Wisconsin Department of Transportation Fixed	5.00	Jul 2029	2.52
State of North Carolina Fixed	5.00	May 2028	1.90
Iowa Finance Authority Fixed	5.00	Aug 2030	1.85
Metropolitan Transportation Authority Fixed	5.00	Nov 2027	1.74
State of Michigan Fixed	5.00	Mar 2027	1.57
State of Maryland Department of Transportation Fixed	5.00	Sep 2029	1.51
State Of Maryland Department Of Transportation Fixed	5.00	Oct 2028	1.48
New Mexico Finance Authority Fixed	5.00	Jun 2028	1.44
New York City Transitional Finance Authority Fixed	5.00	Nov 2026	1.43
TOTAL %			18.26

[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.

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.

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.

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.

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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