Q4 | 2018 AMG Managers Loomis Sayles Bond Fund

COMMENTARY | ASSET CLASS | FIXED INCOME

Class N | MGFIX   Class I | MGBIX

LOOMIS SAYLES

Average Annual Returns (%)[1] (as of 12/31/18)

	QTD	YTD	1 yr	3 yr	5 yr	10 yr	Since Incpt.
MGFIX (Class N)	-1.05	-1.82	-1.82	3.30	2.68	7.10	7.90[2]
MGBIX (Class I)	-1.02	-1.72	-1.72	3.42	2.78	—	2.33[3]
Bloomberg Barclays U.S. Govt./Credit Bond Index	1.46	-0.42	-0.42	2.19	2.53	3.46	7.12[2]

MGFIX (Class N) Expense Ratio (Gross/Net): 0.70%/0.70%
MGBIX (Class I) Expense Ratio (Gross/Net): 0.50%/0.50%

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 Managers Loomis Sayles Bond Fund** (Class N) returned -1.05% in the fourth quarter of 2018, compared with the 1.46% return for its benchmark, the Bloomberg Barclays U.S. Government/Credit Bond Index. For the 12 months ending December 31, 2018, the Fund returned -1.82%, compared with -0.42% for the Index.

Performance Review

The Fund's underperformance was driven primarily by security selection while sector allocation weighed on performance significantly throughout the quarter. Investment grade credit, U.S. Treasury, and high yield credit sectors were the main detractors.

The overweight allocation to investment grade credit limited performance for the quarter. On an absolute basis, performance in the sector had the greatest negative impact in the strategy. Security selection had the most negative effect in this sector. Exposure to securities issued by Ford Motor Credit detracted the most from performance.

Our underweight exposure within U.S. Treasury reduced excess return in the sector. Our overweight exposure to high yield credit detracted from overall performance for the period. Navient, Springleaf Finance, Pulte Homes and US West negatively impacted return in the sector. Security selection subtracted most in this sector.

On an absolute and excess basis, emerging market credit was a modest positive contributor to performance as the sector generated the greatest returns within the strategy. Security selection was the major driver in this sector. Exposure across the capital goods, electric and energy names moderately aided excess return with the securities issued by Embraer, Endesa, and Reliance Holdings having the best performance in this sector.

Investment Outlook

Modest total returns and above-average volatility may define the risk asset landscape in 2019 as economic and corporate earnings growth slow. Consensus expectations for emerging and developed economy growth have been revised lower, but we see limited evidence to suggest the global or U.S. economy is heading toward recession in the near term. Investors may need patience as we transition toward slower growth in this mature phase of the expansion.

Macro Drivers: It's not just a global growth slowdown.

Valuations contracted as a number of risks kept investors on edge. The market is now priced for several risks, including slower global growth, the U.S. Federal Reserve (the Fed) tightening, U.S./China trade relations, global political disruptions, and lower-than-anticipated oil prices. These risks are likely to suppress risk asset valuations unless positive resolutions emerge. The Fed tightening is likely to continue in 2019, with hikes forecasted at mid-year and at year-end. Slowing the pace of hikes should support interest rate-sensitive areas of the U.S. economy, where higher borrowing costs have already started to curtail activity. The U.S./China trade truce remains in effect until March 1, 2019, but we are skeptical that both sides will make meaningful progress during the truce. An extension of the truce is possible.

The global political environment has grown increasingly complex. The Brexit saga, protests in France, and security concerns related to cross-border technology manufacturing should continue to keep investors on high alert. Forward valuation for many asset classes has improved through credit spread widening and contraction of price-to-earnings multiples.

Credit: Certain macro drivers look supportive, but the best could be behind us.

We do not expect substantial spread tightening, even if risk asset volatility subsides. Estimated default rates remain low, global growth is decent, and 2019 corporate earnings are likely to rise between 5% and 9% in aggregate. However, these positive factors do not mean credit spreads can revisit the lows seen earlier in the cycle. Spreads have been rising across global credit markets, but further widening does not look

[1] Returns for periods less than one year are not annualized.
[2] Since the inception of the Fund's Class N shares on June 1,1984.
[3] Since the inception of the Fund's Class I shares on April 1, 2013.

necessary if consensus expectations for growth and inflation come through over the course of 2019.

We estimate excess returns over government bonds will be positive but not substantial, especially if spreads remain range-bound at current higher levels as the global credit cycle progresses.

A U.S. recession does not seem imminent. However, we believe credit market valuations are likely to stick at current adjusted levels, especially if the Fed continues to tighten financial conditions. Wider spreads have restored meaningful risk premia to credit markets, increasing the value proposition. Our sanguine outlook would be at risk if corporate profitability expectations prove too lofty. Credit investors should be able to harvest yield and achieve modest total returns as long as corporate profits remain healthy, the global economy continues to expand, and monetary policy does not become too restrictive.

Government & Currencies: We see modestly higher government bond yields and limited U.S. dollar upside.

It may take another catalyst, like much slower U.S. growth, to spark a sustainable rally across emerging markets and other foreign currencies. The Fed is likely to continue hiking short-term rates in 2019, but at a slower pace than previously anticipated. We believe the Fed is reacting to softer economic activity, tighter financial conditions, and core inflation hovering at or below target levels.

Consensus expectations for global growth have been revised lower and fiscal stimulus in the U.S. could fade in the coming quarters. We view this period as a soft patch in a continued expansion that likely leads economic growth back toward levels consistent with the global economy's long-run potential.

In 2018, the U.S. Dollar benefited from the high level of U.S. growth and interest rates relative to those of other countries. However, if the U.S. economy slows as expected, the Dollar may come off its recent trend higher and establish a trading range. We estimate the soft patch to end and growth to stabilize, which should drive high-quality government bond yields modestly higher while inflationary pressure remains subdued.

Equity: Valuations look compelling, but volatility could stay elevated.

Macro risks are likely to dominate the equity landscape during the next few quarters, despite decent earnings growth and valuations reaching the most attractive levels in several years. Late-cycle threats like tighter financial conditions and accelerating wage growth may lead to increased volatility, particularly when compared with earlier periods of the expansion. Trade wars and global economic softness are additional key risks likely to remain in the near term.

The severe challenges of 2018 left many equity sectors firmly in bear-market territory. Equity markets need time and patience to repair the technical damage endured by even the highest-growth areas of the market. Equities could have meaningful upside if the macro backdrop becomes a bit more supportive. We believe U.S. stocks are most likely to lead an equity recovery. Emerging markets could also present an attractive opportunity—especially if the U.S. Dollar remains range-bound or trends weaker.

We estimate mid- to high-single-digit earnings growth across several global and domestic equity markets in 2019. Higher interest expenses and labor costs could slowly erode profit margins, but price hikes may soften the blow.

Potential Risks: Market pricing reflects a distressing backdrop.

An upturn in developed or emerging market economic data could spark a global risk asset rally, but watch for volatility ahead. Financial markets and the overall investment outlook could deteriorate if the domestic and global economy cannot work through tighter financial conditions brought on by Fed rate hikes and other headwinds. Economists and investors have revised 2019 global growth expectations modestly lower to reflect a slowdown. Further downward revisions would likely generate financial market volatility.

The U.S.'s trade policy, including the ongoing trade war with China, and the flattening U.S. yield curve create an uncertain outlook for the U.S. economy. This uncertainty may prevent corporations from engaging in capital expenditures and would be negative for domestic growth. Further downside risks are present, but an upturn in global economic data could boost investor sentiment and ignite a recovery across global markets. Discernible risks took down asset valuations in 2018. Positive political or economic developments could go a long way to support investor sentiment and risk asset performance.

The views expressed represent the opinions of Loomis, Sayles & Company, L.P., as of December 31, 2018, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

Top Ten Holdings (%)[4] (as of 12/31/18)

Holding	Coupon (%)	Maturity	% of Net Assets
United States Treasury Bill Zero Coupon	-	Feb 2019	11.01
United States Treasury Bill Zero Coupon	-	Feb 2019	5.50
United States Treasury Bill Zero Coupon	-	May 2019	5.46
Ford Motor Credit Co LLC Fixed	4.39	Jan 2026	3.39
United States Treasury Bill Zero Coupon	-	Jan 2019	2.61
Bank of America Corp Fixed	6.11	Jan 2037	2.31
Mexican Bonos Fixed	10.00	Dec 2024	2.27
AT&T Inc Fixed 144A	4.30	Feb 2030	1.86
United States Treasury Note/Bond Fixed	3.00	Aug 2048	1.75
ONEOK Partners LP Fixed	4.90	Mar 2025	1.61
TOTAL %			37.77

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 listed returns and yields on the Fund are net of expenses and the returns and yields on the indices exclude expenses. Current performance of the Fund may be lower or higher than the performance quoted.

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.

High-yield bonds (also known as "junk bonds") are subject to additional risks such as the risk of default.

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.

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 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.

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 Bloomberg Barclays U.S. Government/Credit Bond Index is an index of investment-grade government and corporate bonds with a maturity rate of more than one year.

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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[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.